

Connecticut Agricultural Business Management Guide

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Introduction

This guide is designed primarily for the agricultural producer in Connecticut. It covers basic information dealing with developing a strategy for getting into business, setting up and conducting a business in Connecticut, and provides a primer on the various rules and regulations in Connecticut that every agricultural business owner should know. It can also be used by advisors to agricultural producers as a reference tool.

Farming can be a very satisfying life style. In order, however, to be financially successful, new farmers must view their operation as a business and follow the steps outlined in this guide. You may not need all the information detailed in this guide, however, much of this will be useful to you and may be used by you at a later time.

One of our contributing farmers asked us to share with you that “you always need more money than is projected” to run your business. You may want to keep this in mind as you tap into the resources available to you to grow and develop your agricultural business.

The Definition of Agriculture

Connecticut General Statutes, Sec. 1-1 (q) Except as otherwise specifically defined, the words “agriculture” and “farming” shall include cultivation of the soil, dairying, forestry, raising or harvesting any agricultural or horticultural commodity, including the raising, shearing, feeding, caring for, training and management of livestock, including horses, bees, poultry, fur-bearing animals and wildlife, and the raising or harvesting of oysters, clams, mussels, other molluscan shellfish or fish; the operation, management, conservation, improvement or maintenance of a farm and its buildings, tools and equipment, or salvaging timber or cleared land of brush or other debris left by a storm, as an incident to such farming operations; the production or harvesting of maple syrup or maple sugar, or any agricultural commodity, including lumber, as an incident to ordinary farming operations or the harvesting of mushrooms, the hatching of poultry, or the construction, operation or maintenance of ditches, canals, reservoirs or waterways used exclusively for farming purposes; handling, planting, drying, packing, packaging, processing, freezing, grading, storing or delivering to storage or to market, or to a carrier for transportation to market, or for direct sale any agricultural or horticultural commodity as an incident to ordinary farming operations, or, in the case of fruits and vegetables, as an incident to the preparation of such fruits or vegetables for market or for direct sale. The term “farm” includes farm buildings, and accessory buildings thereto, nurseries, orchards, ranges, greenhouses, hoop houses and other temporary structures or other structures used primarily for the raising and, as an incident to ordinary farming operations, the sale of agricultural or horticultural commodities. The term “aquaculture” means the farming of the waters of the state and tidal wetlands and the production of protein food, including fish, oysters, clams, mussels and other molluscan shellfish, on leased, franchised and public underwater farm lands. Nothing herein shall restrict the power of a local zoning authority under chapter 124.



Starting and Building an Agricultural Business

Introduction

There are many things to consider when starting an agricultural business. Deciding to build an agricultural business is a substantial step, and this guide is designed to provide an overview of the imminent process. This guidebook will also assume that you have already chosen a suitable “product” to raise and that you already know how to successfully cultivate this product for large scale production. Furthermore, this guide will assume that you have enough land space to do so and that local government laws permit you to raise your “products” there.

Do You Have What It Takes?

Before proceeding with your agricultural business plan, consider the following aspects of being a business owner.

1. **Vision.** This is the first thing you need and you cannot proceed without it. A vision is a realistic idea of what your business is going to be. This is not just the product or service, but a complete, integrated system for doing business. You must always have a goal and a plan to get there.
2. **Time.** Running your business will take much more of your time than working for someone else, especially at the beginning. If you have a list of activities that you are not willing to give up for your business, then you may not have the time.
3. **Ability to Prioritize.** No matter how much time and other resources you put into your business, it will never be enough to accomplish everything you want to. You will have to be able to set priorities for the best long-term outcome for the business. The choices will not be clear and you may not know if you made the right choices for months, if ever. There is little instant gratification in owning a business.
4. **Ability to Multi-Task.** The business owner has to handle operations, financial, sales, staff, purchasing, legal and more – all at the same time. Interruptions are more common than not and most days do not go as planned. If you cannot tolerate interruptions, if you are not willing to let your business schedule you as opposed to you trying to schedule your business, then you may not be flexible enough.
5. **Ability to Partner.** Running a business goes beyond just working with people. You will have highly important relationships with your customers, suppliers, employees, and the government agencies that regulate or tax you. If any of these relationships is adversarial, your business will suffer. In many ways you will not be your own boss, but have lots of bosses.
6. **Discipline.** Do you have the discipline to resist temptation and focus on your business? That means setting goals and sticking with them until they are accomplished or you make a sound business decision to change them.
7. **Responsibility.** You will also be responsible for anything the business does. You will be responsible for any reporting requirements. There will be no boss to handle problems; you are the boss.

Furthermore, it is important to be aware of some common reasons that businesses tend to fail. Ask yourself what you will do to overcome the following problem areas:

- Lack of management experience or capability.
- Insufficient cash to start or working capital.
- Wrong location.
- Insufficient systems, policies and procedures.
- Too much debt at start-up.
- Poor supply chain/credit arrangements.
- Business cash flow insufficient to meet personal demand for cash.
- Unexpected customer behavior.
- Competition.
- Overestimated sales and/or underestimated expenses.

Starting a Business

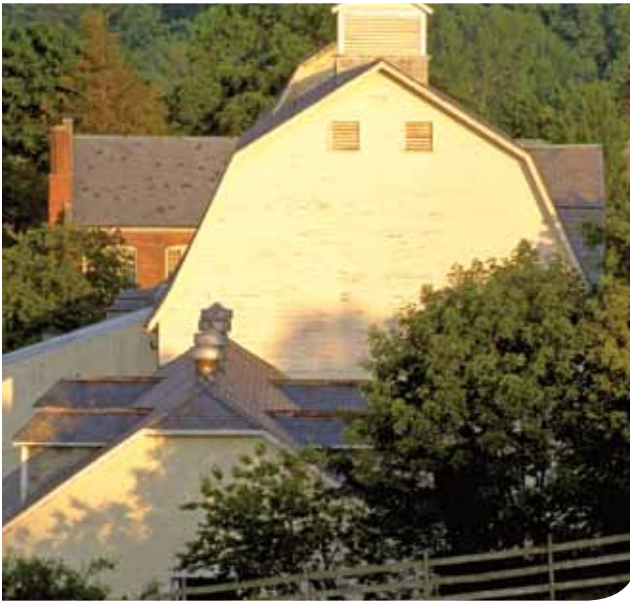
Here are some basic steps to start a business. You may need other steps specific to your business:

1. Choose a new business or adopt a new enterprise that you are passionate about. This is the most important step, since what you are choosing will basically be a lifestyle for you and your family. Share your thoughts with your family to encourage them to ask you how you will include this business in your life goals.
2. Create a personal needs assessment:
 - How much money do you need to live on each month?
 - How much of this will be drawn from the business?
 - Who is your lawyer, accountant, lender, consultant, insurance agent; that understands your needs and your industry?
 - What IRS forms do you need to file? i.e. Schedule F, Form 1120S, Schedule C
3. Develop a network. Join member organizations. You can learn a great deal by joining the appropriate commodity organizations or farm groups. Contact the CT Department of Agriculture www.ct.gov/doag to learn what association might be useful to you. Field meetings, twilight meetings and handbooks are also items that will aid you.
4. Determine the legal form of your business; sole proprietor, limited liability company, etc. Seek the guidance of an attorney familiar with the type of business you plan to have.
5. While you are not required to officially “register” as a farm in Connecticut, you do have to register with the Department of Revenue Services (DRS) www.ct.gov/drs/ if you want to take advantage of various farm beneficial regulations or to sell farm products:
 - Obtain a Farmers Tax Exemption Permit (Form REG -8) that enables you to purchase farm business related supplies sales tax free. The primary requirement is that you make yearly gross sales of at least \$2,500. Permits are issued for 2 years and are valid from October 1 until September 30.
 - Obtain a Sales and Use Tax Permit (Form REG - 1) if you make taxable sales and must collect sales tax. You are not required to obtain sales and use tax permit if you raise and sell tobacco, fruit, vegetables, board horses or are involved in dairy farming.
6. Develop a complete business plan. After the plan is done, go to your town hall and ask if there are any issues with your agriculture business plan. There are zoning laws that may prescribe what you may or may not do (for example acreage in order to be a farm, farm stand restrictions, retail sales, parking, land use restrictions).
7. Obtain operating licenses and permits:
 - If you are looking to serve food products, you must do so in a licensed kitchen. Contact the local health department for licenses and regulations.
 - If you are looking to process farm products, there are strict health regulations and licenses required from the Dairy Division of CT Department of Agriculture www.ct.gov/DoAg, CT Dept. of Consumer Protection www.ct.gov/dcp, CT Dept. of Health www.ct.gov/dph, and the United States Dept.. of Agriculture www.usda.gov. (Some local health departments also inspect processing facilities.)
 - If you need a pesticide license to purchase and use restricted chemicals on your farm you will need to contact Pesticide Compliance, CT Department of Environmental Protection www.ct.gov/dep/

8. Become aware of financial requirements. Seek the guidance of an accountant to prepare tax and other documents for your business. Register for all federal IRS requirements including payroll tax deposits and other payments. www.irs.gov. Register for all state requirements as well.
9. Set up a business checking account and a business record keeping system.
10. Establish a line of credit with a bank if one will be needed now or in the future.
11. Be sure all insurances are in place. Get workers compensation coverage for employees as required by Connecticut law.
12. If you can, consider starting your business part time to test the concept.

Sample Setup for Starting a Christmas Tree Farm Business

1. Contact the Connecticut Department of Agriculture to receive general information.
2. Contact the Connecticut Christmas Tree Growers Association (CCTGA) for information, go to field meetings, visit local growers, and know the pros and cons of the business. www.ctchristmastree.org
3. Contact your town officials to check on zoning and what is allowed for farming and retail farm stands.
4. Develop a business plan. This will determine if it can be a viable enterprise and tell you what exactly your needs are. You will also determine the legal form of your business.
5. Purchase the CT/ Rhode Island Christmas Tree Growers Manual with details on technical aspects of growing Christmas trees.
6. Test your soils for nutrient levels and bring in an expert from (CAES) Connecticut Agricultural Experiment Station on what varieties of trees are suited for soils and terrain.
7. Obtain a Pesticide Applicators License thru Department of Environmental Protection (DEP) in order to use herbicides and pesticides on your property.
8. Obtain a Beginning Farmer Sales Tax Exemption Certificate from the CT Department of Revenue Services (CT DRS) in order to be able to purchase farm equipment and other items sales tax free.
9. Determine if you will you need to apply for a loan to get land ready or to purchase equipment and planting stock (tree seedlings or transplants). Have your business plan in place to discuss with a lender. The USDA Farm Service Agency (FSA) has beginning farmer loan programs available.
10. Apply for any grants that may be available for beginning farmers. Check with the CT Department of Agriculture for information on their Ag Viability Grant program.
11. May want to obtain services of a qualified accountant to handle tax and income issues of a farm.
12. Need Land? Visit Connecticut Farm Link at www.farmlink.uconn.edu
13. Do you need to set up a legal entity for your business (LLC, sole proprietorship, Partnership, Corporation, other)?
14. Apply to place land under farming into farmland classification in your town (PA 490). Must apply with the town assessor on form M-29 between Sept. 1 and October 31.



Choosing a Legal Form to Operate

Introduction

Before you develop your business plan, you need to select a legal form for your business. You make that choice based on characteristics that differentiate the forms of business based on what is most advantageous for you and your business. Those characteristics include organizational and reporting requirements, ease of formation and transfer, treatment of earnings and taxes, and liability. Factors such as license and other regulatory requirements affect all forms of business equally and are not a factor in choosing a business form.

Seek legal help from a qualified attorney when considering your options. Pick the entity that meets your needs. Deciding the form of ownership that best suits your business venture should be given careful consideration. Use your key advisers to assist you in the process.

The following are some important factors to consider:

- The simplicity of your operation.
- Your vision regarding the size and nature of your business.
- The level of control you want.
- The level of structure you are willing to deal with.
- Business' vulnerability to lawsuits.
- Tax implications of the different ownership structures.
- Expected profit (or loss) of the business.
- Whether or not you need to reinvest earnings into the business.
- Your need for access to cash out of the business for yourself.

This chapter will discuss five different legal forms under which a business may operate including: sole proprietorship; partnerships; corporations; sub-chapter S corporations; and limited liability companies.

Sole Proprietorships

The vast majority of small businesses start out as sole proprietorships. These businesses are owned by one person, usually the individual who has day-to-day responsibilities for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one and the same with the business. The sole proprietorship itself is not taxed by the state or federal government. All income and expense from a sole proprietorship is reported on the owner's personal tax return, on Schedule F for a farm (schedule C for a nonfarm).

The net income on Schedule F is added to the business owner's income on his or her tax return, form 1040. The business owner then pays all federal and state income tax at his or her personal tax rates. In addition, Schedule F net income is subject to self-employment tax (social security). Losses from a sole proprietorship are generally deductible based on certain complex rules.

Advantages

- Easiest and least expensive form of ownership to organize and operate.
- Operator is in complete control.
- Operator receives all income generated by the business to keep or reinvest.
- Profits from the business flow directly to the operator's personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages

- Operator has unlimited liability and is legally responsible for all debts against the business. Their business and personal assets are at risk.
- Business terminates at death unless an estate plan is in place.
- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

Federal Tax Forms for Sole Proprietorships - (a partial list; some may not apply):

- Form 1040: Individual Income Tax Return
- Schedule F: Profit or Loss from Agricultural Business
- Schedule SE: Self-Employment Tax
- Form 4562: Depreciation and Amortization

Partnerships

In a partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. While not required, the partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, and what steps will be taken to dissolve the partnership when needed. They also must decide up-front how much time and capital each will contribute, etc. The profits from the business flow directly through to the partners' personal tax returns.

Advantages

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- The business usually will benefit from partners who have complementary skills.

Disadvantages

- Partners are jointly and individually liable for the actions of the other partners. The liability is joint and several, meaning that any of the partners could be held responsible for the entire debt of the business if the other partners have insufficient assets to cover their share of the loss.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.
- Income tax consequences can occur upon formation and dissolution of the company. Care should be taken to avoid tax consequences to the extent possible.

Types of Partnerships

In a *General Partnership* partners divide responsibility for management and liability as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.

In a *Limited Partnership*, limited partners have limited liability (to the extent of their investment) as well as limited input regarding management decisions, which generally encourages investors for short-term projects or for investing in capital assets. This form of ownership is not often used for operating businesses. Forming a limited partnership is more complex and formal than that of a general partnership.

Federal Tax Forms for Partnerships - (partial list, some may not apply)

- Form 1065: Return of Partnership Income
- Form 1065 K-1: Partner's Share of Income, Credit, Deductions
- Form 4562: Depreciation

Corporations

A corporation chartered by the state in which it is headquartered is considered by law to be a separate entity and apart from those who own it. A corporation can be taxed, it can be sued, and it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The Board appoints officers who handle the day-to-day aspects of operating the business. The corporation has a life of its own and does not dissolve when ownership changes.

A "C" corporation is taxed as a separate legal entity, paying tax on its income at the corporate federal and state tax rates. C-Corporations file federal taxes on Form 1120 and pay quarterly estimated taxes with Form 1120-W. While corporate tax rates are generally lower than personal rates, the profits of a corporation are paid to the stockholders as dividends. Dividends paid by a Corporation are after tax income to the corporation and taxable income to the stockholders (frequently called 'double taxation').

Advantages

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect S corporation status if certain requirements are met. This election enables the company to be taxed similar to a partnership.

Disadvantages

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus it can be taxed twice.

Federal Tax Forms for Corporations - (partial list, some may not apply)

- Form 1120 or 1120-A: Corporation Income Tax Return
- Form 4625 Depreciation

Sub-chapter S Corporations

A tax election only; this election enables the shareholder to treat the earnings and profits as distributions and have them pass through directly to their personal tax return. The catch here is that the shareholder, if working for the company, and if there is a profit, must pay him/herself wages, and must meet standards of “reasonable compensation”. The basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for all of the payroll taxes on the total amount. For federal tax purposes, S-Corporation income and deductions “flow through” from the Corporation to the individual shareholders. This has the advantage of avoiding the double taxation and still offers the legal status of a corporation.

Federal Tax Forms for Sub-chapter S Corporations - (partial list, some may not apply)

- Form 1120S: Income Tax Return for S Corporation
- 1120S K-1: Shareholder's Share of Income, Credit, Deductions
- Form 4625 Depreciation
- Form 1040: Individual Income Tax Return
- Schedule E: Supplemental Income and Loss
- Form 1065: Return of Partnership Income

Limited Liability Companies (LLC)

The LLC is a hybrid business structure combining elements from corporations and partnerships. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. For these reasons, the LLC structure is a popular choice for many small business owners across the country.

The biggest advantage of the LLC structure is the ability to have limited personal liability for business debts while also having the benefit of pass through taxation. In the LLC structure, business earnings are passed on to the partners as income. Therefore, pass through taxation means that the partnership is not directly taxed on earnings, but rather the partners are taxed based on their income received from the business earnings. These taxes are typically much lower than taxes on business earnings.

The owners or partners within a LLC are called members, and the duration of the LLC is usually determined when the organization papers are filed. However, unlike other business structures, a LLC can have perpetual existence even if a member dies. Although LLCs are typically comprised of one or more members, all states now allow for a single member LLC structure. This approach features the same limited liability and tax incentives found in a normal LLC. Unless a single member LLC elects to be treated as a corporation, single member LLCs are taxed as a sole proprietor for income taxes.

For more information on filing your business as an LLC in Connecticut, visit www.concord-sots.ct.gov/CONCORD/index.jsp

Advantages:

- Protection from personal liability for business debt
- Perpetual existence
- Pass through taxation
- Members do not need to be citizens
- No meetings required, but encouraged

Disadvantages:

- Relatively new – courts have not decided many LLC cases involving liabilities
- Can't take company public

Federal tax forms for LLC's (Partial list, some may not apply):

- Form 1040 – Individual Income Tax Return
- Schedule E – Supplemental Income and Loss
- Schedule F – Profit or Loss from Farming
- Form 1120 – U.S. Corporation Income Tax Return
- Form 8832 – Entity Classification Election for LLC
- Form 1065 – Partnership Return of Income

*** When choosing a legal form to operate we remind you to seek professional guidance on the optimum way to set up your business to assure you operate within the rules and regulations required.**



Business Plans

The Business Plan

A critical element to starting or improving your small business is the formation of a business plan. A business plan is an essential element that helps set goals, plan strategically, and acquire loans. In addition, a business plan can help you judge the progress of your business and potential areas that could be improved. When deciding what to include in your business plan, remember that it should reflect an outline of your business. Therefore not all business plans are the same and the order of topics within your business plan may vary. However there are some key elements that are necessary to achieve success. First, think about these general ideas when writing your business plan:

General Ideas

- A business plan will help you determine the profitability of your company. It will uncover potential strengths and potential weakness in your business. So be forthright with information!
- A business plan sets goals that help you measure results compared to your plan. Tracking the business against the plan is a highly effective management tool and this will help you make prudent adjustments along the way.
- A business plan keeps everyone working towards the same goals including management and employees. For most small business, fewer employees mean greater levels of responsibility. So make sure every position within your business is clear.
- Most importantly, a business plan is a tool used by lenders, investors, and banks to evaluate your business. Lenders, investors, and banks need to see that you and your business can provide a return worthy of the risk of providing you with start-up or expansion capital. Lenders and investors will expect reports on your progress and require your plan to be updated on a timely basis during their relationship with your business.
- Finally, businesses require different plans through the life cycle, from a feasibility study before startup, to the expansion plan at a rapid growth stage, to the reorganization plan for a business in decline. It is not necessary to include a business plan for each life cycle in the beginning; a detailed plan for feasibility and startup is all that is needed. But keep in mind that for each stage, your business plan must be revised and updated.

Business Plan Outline

As described above the outline of your business plan can be unique to your business. However after making sure you have covered the general ideas expressed above, there are some specific ideas that you should also include. These specifics could make or break your business plan. If you are specific about critical details you can improve your chances of success. But remember to be concise in some areas. A good business plan has six general areas. They are:

1. Executive Summary
2. Business Description
3. Operations
4. Marketing Plan
5. Management
6. Financials

You should also present a cover sheet and a table of contents within your business plan. The following descriptions will help guide you into greater detail on these areas.

Executive Summary

The executive summary is a concise overview of your entire business plan. Typically it is the first section within a business plan. Its basic function is to inform readers why you think your business will be successful. Since the executive summary is the first section of your business plan, you should keep the material about your business idea intriguing and interesting. Show that your idea provides a need for consumers. This will encourage readers to continue through your entire plan while also showing your passion for your business.

If you are starting a new business there are several points you should outline within the executive summary. First, you should summarize the goals for your potential business. These goals will become the objectives that the rest of your business plan is designed to meet. Second, you should mention your experience and knowledge within the industry you would be entering. Make sure you convince the reader that you understand the services or product your business will be supplying. This will be important when approaching creditors.

If you have already started your business, you should summarize your business and its history. Include any goals you have for the future. If you have been successful to this point within your business, highlight your accomplishments. If you have not been successful yet, provide reasons why and describe how you plan to turn your business venture around.

Remember, you must provide a clear outline and vision within your executive summary. But be concise; do not go into much detail. You have the rest of your business plan to cover the details of your business endeavor. There are some smaller elements that will be needed in your executive summary. These, along with other hints are summarized below:

Key Points

- Give a brief, focused description of your business
- Describe your history and experience
- Develop your vision and mission statement
- Develop goals and objectives (objectives must be measurable and timed)
- Give names of members, possible facilities, and banking services
- Include information about your product and services
- Basic overview of key elements of your business plan such as finances, marketing, and management
- Clear overview of why your business will be successful
- Include Table of Contents following your executive summary

Business Description

This section focuses on how all the elements of your business fit together. You want to further expand upon some of the elements mentioned in your executive summary while also explaining the organization of your business and the structure it will take.

First, you want to establish the nature of your business. In most cases, the business you are starting would be deemed agricultural. Additionally, include information on the structure of your business (sole proprietorship, partnership, corporation, LLC, etc). Whatever the reason or need, you must be able to answer the question, why is this business a good idea and what need am I satisfying? You will also want to provide an overview of how your business will work. What kind of product will you be providing? Will you be delivering your product or will you require pickup? Understanding how your business will work allows you to review how your product or service will supply a need. This is important when providing a description of your business.

Key Points

- Provide detailed information on the parts of your business and how they fit together
- Describes assets needed to operate the business (land, building, equipment) including any manufacturing or production process
- Location of business
- Review of business history and management experience
- Legal form chosen for the business

Operations

The operations section of your business plan describes how your business will run smoothly. It focuses on what you will produce, how you will produce it and how much you will produce. Within this section, you should expand upon what products and services you will be offering, possible customer service opportunities, inventory management, licenses, permits and regulations needed, possible patents and trademarks and environmental issues that could be encountered. Review risk management tools that will be utilized to manage risk such as crop insurance, other forms of insurance and enforcement of food and work safety standards. Providing an implementation timeline will help keep your tasks on track and make your business efficient. Often an overview is only required for this section, as operations typically involve actually doing the work required for your business.

Marketing Plan

The marketing plan consists of two main sections: the Market Analysis section and the Marketing and Sales Management section.

Market Analysis

A key to establishing a successful business is acquiring information about the market in which you will be selling your product. Your market analysis should consist of information on the following: industry description for your product (for example, milk would be in the dairy industry), the consumers that make up your target market, and the evaluation of your competition through

competitive analysis. Note that this section does not contain the marketing strategy for your new business. Instead, the market analysis section simply provides information on the market you are planning to enter. For your market analysis to be helpful, you must explore each of the areas listed above. Below is a description of each.

Industry Description

The industry description gives an overview and outlook of the industry you would be potentially entering. You would want to include its current size, historic growth rates, trends and characteristics and its interaction with the local community, namely businesses, governments and consumers. Researching information about your industry is important so that you can gain an understanding about the potential positives and negatives of your business.

Target Market

Another important part of your business is identifying the people who will buy your products or use your services. It is simply the market or group of people that you want to target as potential customers. In the early stages of your business, it is important to make your target market a manageable size. Do not try to be everything to everybody, which could be the downfall of your business. Start out small and increase your target market as your business expands.

Part of the process of establishing a target market is gathering information from potential customers. Understanding some distinguishing characteristics of your customers can be helpful. You should discover the needs of your customers, the demographics of the target group, possible seasonal and cyclical trends in purchasing, and the size of your potential target market. Elaborating on how you will gain consumer trust and how you will reach your customers is also important. Advertising strategies might be needed for certain agricultural businesses.

Competitive Analysis

Competitive analysis is when you identify your potential competition as well as determine their share of the market segment. You should also identify their strengths and weaknesses. When doing your research determine the competition's target market and establish whether your business will be fighting for their customers. Two other areas that should be included in your competitive analysis are possible barriers to entry and potential regulatory restrictions. Barriers to entry include high investment costs, the time it takes you to set up your business, technology that may be needed, and lack of a trained workforce. Regulatory restrictions include the requirements you will need to meet and how they can affect your business plans. For example, if you are planning on starting an organic vegetable farm, you must research the regulations that determine if you can call your vegetables "organic".

Key Points

- Explain your industry and its environment.
- Understand your potential customer through establishing a target market
- Find the strengths and weaknesses of your competition
- Remember this section is about research. Establishing your own marketing and sales strategy comes later!

Marketing and Sales Management

You want to expand upon the primary factors that will make your business successful. This entails providing a reason why the market place needs your business. For example, if you are starting an orchard business, a potential reason why this venture might be successful could be due to the poor quality of fruits at a local supermarket. Thus your business would provide for a need. Your business will not survive unless you have customers to purchase your good or service. You also must offer your goods and services at prices that are both fair to consumers and profitable for your business. This is why your marketing and sales strategies are so important. In this section you will want to define these two important strategies that will guide your business.

Marketing Strategy

First, your marketing strategy is essential to a strong business. Marketing is the process of creating customers, and as noted above, customers are the lifeblood of your business. Defining your marketing strategy focuses on several topics including your market penetration strategy, your strategy for growing, your channels of distribution and your communication strategy. A market penetration strategy is basically how you will enter the market with your product. There are two likely scenarios. First, you can gain competitors' customers, thus acquiring part of their market share. Or you can attract non-users of your product and convince them that they should start purchasing it. This is achieved through an advertising campaign.

A strategy for growing your business is simply how you expand your business once you have entered and adjusted to the market. Typically, you can introduce a new product or you can introduce your current product to a new market. Channels of distribution refer to how your customers will receive your product. Finally, your communication strategy revolves around how you are going to reach your customers. Your communication strategy is simply how you will advertise to your target market. Will there be product promotions, media advertising, or personal selling? These are all questions you will have to ask yourself.

Other factors to think about when composing your marketing strategy are where you will locate your business and how this affects your target market. Placement of your business can be a vital key to success in order to draw the potential customers you are seeking.

Sales Strategy

Your sales strategy includes how you will select your price. This means you must first determine your pricing strategy. If your market consists of several competitors, then you might want to use a competition based pricing strategy. You could also use a cost – plus pricing strategy, where you determine your price based on the cost of production, or a penetrating pricing strategy, where you set the price low in order to gain access into the market. Whatever strategy you choose, remember this can be an important part of advertising.

Key Ideas

- Sell benefits of a product rather than features of a product
- What makes your products or services attractive to the target market
- What is the price structure
- How does that pricing compare to the industry and why is it different or the same
- Why will that price structure appeal to the target market
- Where will you place your business or what is your means of distribution
- Why will that appeal to the target market
- How will you get your message to the target market
- What differentiates your products or services; what is your niche if any
- What are your advantages over the competition
- SWOT Analysis – Strengths, Weaknesses, Opportunities and Threats

Management

Your business management strategy is arguably just as important as the need you will be fulfilling by providing your product or service. Without efficient management, the ability to produce a product or provide a service becomes considerably harder. In this section, you will want to outline your business structure. Simply describe what jobs need to be performed and who will perform them. If your business includes more than one owner, then you must include your partner's background as well as how you plan on splitting the managing tasks. As your business grows or if your business is big enough, an organizational chart with a description of the production and management responsibilities should also be included in this section.

Key Points

- Provide business organization information:
 - Identify products and services
 - Develop organization chart
 - Provide job descriptions for all positions, including employee management systems regarding recruitment, salary structure, vacations, etc.
 - Advisors hired or identified
 - Develop accounting system
 - Identify risk management strategies, i.e. crop insurance, etc
 - Policies and procedures for such things as quality control and billing need to be addressed

Financials

The last section of your business plan is also one of the most important. When you present your business plan to investors or creators, they will examine your financials very closely to determine whether you are a good candidate for possible loans. Therefore you must present precise and accurate financial statements. If you are just starting your business, your financial statements may be estimates of what your future plans may be. But you must be able to justify your figures.

Financials are the process of allocating your resources efficiently. There are some critical financial statements that should be included. First, historical data is important if you have been in business for several years. Most business creditors request 3 to 5 years of financial history. Creditors will also be interested in any collateral you have used for your business.

All businesses, both startup and established will need to supply prospective financial data. Most creditors care about what you can do in the first 5 years of business. Therefore your financial package should include forecasted income statements, balance sheets, cash flow statements and capital expenditure budgets. For your first year of business you should provide monthly or quarterly projections, depending on your business. After the first year you can provide quarterly or yearly projections for years 2 through 5. In some cases, since agricultural practices can be seasonal, yearly projections will do. Graphs representing financial information are often preferred for business plans if they are accurate. So be sure to check your projected financial statements with your funding requests, because creditors will look for inconsistencies.

A business plan should also include plans for transitioning out of the business and retirement. Businesses can set up SIMPLE plans, SEP etc that allow them to put away more money for retirement than a traditional IRA does. The IRS has a publication www.irs.gov/pub/irs-pdf/p3998.pdf that covers options for small business owners. Again we encourage you to work with your accountant, financial advisor and insurance agent.

Key Points

- Determine start-up capital needed as well as any additional funding needed after initial start up
- Documents you will need:
 - Profit & Loss Statement (actual by operating year and projected) 1-5 years
 - Cash Flow Statement (actual and projected) 1-5 years
 - Projected balance Sheet (at beginning and end of projection period) 1-5 years
 - Break even analysis
 - Amortization Schedule(s) of loan(s)
 - Depreciation Schedule (showing equipment purchased over the span of the projections)
 - Tax returns (3 years) of owners and business (If business filed a separate tax return such as a partnership or corporation or LLC)
 - Personal Financial Statement of all principals as well as of business.

Optional documents to support the business plan:

- Supporting statistics from any independent, reliable source
- Policy and Procedure Manuals
- Licenses, permits, registrations
- Listing of aging accounts receivables/payables
- Just about anything that credibly supports the plan

There are many publications and computer programs that can assist you in developing and writing your business plan. Ag Plan, an agricultural business plan site, is offered by the University of Minnesota at www.agplan.umn.edu. This website provides templates to assist you in developing your business plan.



Record Keeping

Introduction

Records are important to the financial health of your farm. Good records do not ensure your business will be successful; however, success is unlikely without them. Records are a good management tool. They are essential for preparing income tax returns; submitting to lenders to make loan decisions; for establishing eligibility to participate in government loan and grant programs; and for determining the proper level of insurance coverage.

1. Every business must file tax and information returns with local, state and federal authorities. Organized, accurate records make this easier and save taxes, fines and penalties.
2. Well-maintained records help the owner control and manage the business. Good records are the foundation of a profitable business.
3. Records are necessary to document loans.

Also, keep in mind that whether the owner operates the business as a sole proprietorship, a partnership, a limited liability company, or a corporation, the same rule applies. Keep personal finances separate from business finances. Never mingle personal and business funds in the same bank account. Mixing business and personal finances makes control and measurement of the business difficult.

Accounting Methods

Cash Method

If you operate on a cash basis, the general ledger is a nearly complete source of information for an income statement and the Federal income tax Schedule F and other related forms. Most small agricultural businesses can operate for tax purposes on a cash basis. Income is reported when received and expenses are deductible when paid.

Accrual Method

The accrual method of accounting is an alternative to the cash method of accounting. With the accrual method, you record income and expense activities when they occur, not when money is received or spent. The accrual method of accounting lends itself to more useful farm management analysis because revenue and expenses are recorded in the same time period. To employ the accrual method, resources must be inventoried regularly with adjustments made for changes in accounts payable, accounts receivable along with inventories and pre paid expenses. If you prepare a balance sheet at the end of each year, then you can create an accrual income statement each year as well. A cash income statement becomes an accrual income statement after adjustments are made based on the beginning and ending balance sheets.

Creating and Maintaining an Accounting System

An accounting system is simply a term for farm records. But if users think of an accounting system, they are more apt to think about the total data needed to create the necessary reports and analyze them to determine what is happening in the business. While this could be quite complex, users should think about four types of data needed for the farm business accounting system:

1. Daily cash farm receipts and expenses, including loans and payments.
2. Capital purchases and sales.
3. Depreciation records.
4. Annual inventory at end of the business year.

The first three of these are needed for tax returns. The only additional information needed to create the financial statements is inventory data.

In a farm business some basic reports are needed. The key ones are:

- Transaction Journal (all cash flowing into and out of the business)
- General ledger
- Depreciation schedule (for all depreciable assets)
- Employee reports: Paychecks, withholdings, payments of employment tax, W-2, I-9, new hire reports, workers compensation and other reports
- Balance Sheet
- Income Statement
- Cash Flow Statement

The following backup information should also be maintained:

- For receipts:
 1. Cash register tapes
 2. Bank deposit slips
 3. Receipt books
 4. Invoices
 5. Credit charge slips
 6. Forms 1099-misc.
- For expenses:
 1. Canceled checks
 2. Cash register tapes
 3. Account statements
 4. Credit card sales slips
 5. Invoices
 6. Petty cash slips

Transactions Journal vs. General Ledger

A transactions journal and general ledger are useful for recording income and expense records. In the transactions journal, you record financial transactions as they happen. In the general ledger, you begin organizing your farm records into a meaningful format. Important uses of the transactions journal and general ledger are to provide information for the income statement and cash flow statement. With the income statement, you can calculate farm profit. The cash-flow statement is a summary of the timing and flow of dollars in and out of the farm business. It helps you meet cash obligations. Information recorded in the transactions journal and general ledger should be complete and accurate.

Transactions Journal

For most farmers, a simple yet suitable transactions journal is the farm checkbook. It helps you keep track of the majority of income and expense transactions needed for a complete set of records. When entries are made in the farm checkbook (when checks are written or deposits are made), sufficient information should be recorded. The date of the transaction, check receipt number, amount of check or deposit, and the payee or income source are commonly included. Although most transactions are listed, items not typically included in farm checkbooks are petty cash expenses and non cash expenses such as depreciation. Other items that might not be included are income deposits in farm savings accounts. Do not overlook these transactions.

An adequate description of the transaction, including its purpose, is often overlooked. If a check were paid to a farm supply store, a description should be included. If the items purchased are too numerous to write in the checkbook description, then the receipt can be cross referenced. Cross-referencing receipts is a good business practice. When a purchase is made with a check, the check number should be written on the store receipt and then filed.

General Ledger

With the information from the transactions journal, the farmer organizes cash receipts and expenses in the general ledger by date and category. Generally, a ledger will encompass one calendar year. If you operate under a different fiscal year than the calendar year, the general ledger should reflect that period.

Computerized Farm Records

There are computer software packages you can use for record-keeping. They are very helpful and relatively easy to use. If you use a computerized system, you must be able to produce sufficient records to support and verify entries on your tax return. Be sure to discuss entry of information with your accountant to ensure that all information has been recorded properly.

Framework for Financial Analysis

To report how the farm business is doing requires at least three financial statements: the Balance Sheet, the Income Statement, and Cash Flow Statement. All statements should relate to the same time period, the business year.

Balance Sheet

The balance sheet shows what you own and its value and what you owe as of a point in time. The difference is net worth at the end of the business year. The balance sheet is helpful in acquiring funds, measuring financial progress, considering risk and valuing ownership. The balance sheet must be based upon an inventory taken at the end of the business year. Counting assets is relatively easy. Valuing assets, however, is more difficult. Assets are generally valued at their fair market value (FMV) which is generally the net market price for which they could be sold. They could be valued at their original cost minus depreciation (book value). Generally, most assets on a business financial statement for lending purposes are valued at FMV. However you decide to value a resource, you should be consistent from year to year. Liabilities are easier than assets to value. A listing of debts to

banks and other creditors usually is sufficient. The only difficulty is adjusting for accrued interest. For example, if your annual land payment is due in August and you take inventory of your resources on December 31, then an adjustment must be made concerning the amount of interest that has accrued since the last payment.

Types of Farm Assets

Current farm assets: These include cash, accounts receivable and other assets that are easily converted to cash without affecting the business operation. They include prepaid expenses, supplies, crops, livestock, and others that will be consumed in production or that will be sold during the year.

Intermediate farm assets: These include those that support farm production and have a useful life of more than 1 but less than 10 years. Breeding livestock, tools, vehicles, machinery and equipment fall into this category. Unlike current assets, intermediate assets are not easily converted to cash; doing so would disrupt production. For example, machinery and equipment are harder to sell than crops and market livestock and selling these assets may reduce farm productivity.

Long-term farm assets: These include farmland, buildings, improvements and items that have a useful life of more than 10 years. These assets are difficult to convert to cash, and doing so would seriously affect farm production.

Nonfarm assets: This is another section included on the asset side of the balance sheet. For many farmers, personal items such as a home, furnishings, or vehicles are considered part of the farm operation. If they are not included in the farm asset categories, they may be included in the nonfarm asset section. However, some individuals choose not to include personal items in the balance sheet. In this case, the nonfarm asset section would be left blank.

Types of Farm Liabilities

Current liabilities: These are debts due in the coming business year. They include your farm accounts payable and accrued expenses such as rent, interest and taxes. Short-term notes such as those you use to cover operating loans and the principal on longer-term liabilities due within the next year are also listed in this category. These liabilities correspond somewhat to current assets since funds needed to make payments on these liabilities may have to come from liquidating current assets.

Intermediate liabilities: These include liabilities that will be repaid from 1 to 10 years from the date on the balance sheet. Loans for breeding livestock, machinery and equipment are typical of this category. Do not double-count liabilities by including the current principal portions of these liabilities that have already been included in the current liability section. Intermediate liabilities correspond to intermediate assets since the intermediate assets will generate the income needed to make the payments on these liabilities as they come due.

Long-term liabilities: These consist of mortgages and contracts owed on farmland and loans for buildings and improvements. These liabilities have payment due dates beyond 10 years. These liabilities correspond to long-term assets. The long-term assets will generate income needed to make payments on these liabilities when they are due. As with the intermediate liabilities, the current principal portion that is included in the current liability category should not be entered here.

Nonfarm liabilities: These should be listed if nonfarm assets were listed on the asset side of the balance sheet.

Contingent liabilities: Consider this type of liability in formulating your balance sheet. These liabilities are contingent upon the sale of your assets. Sales of crops and livestock listed in the current asset category may generate a profit on which you have to pay income taxes. An estimate of these taxes should be included in the current liabilities on the balance sheet.

Your intermediate and long-term assets such as machinery, equipment, land, buildings and improvements often have higher market values than the book values of these items used for taxes. If you were to sell them, you would have to pay a tax on capital gains. Estimate these contingent taxes and enter them on the balance sheet as liabilities. This is particularly true when you value your assets using the market value approach.

Income Statement

The income statement shows what the business earned during the business year. This can be on a cash basis or on an accrual basis. An accrual income statement will reflect what the farm actually earned during the year taking into account accrual adjustments. To develop one you must have detailed balance sheets from the beginning and end of each year.

Cash Flow Statement (historical and projected)

Many start-up businesses generally have expenses right away but income does not start for some time. A projected cash flow statement simply lists all sources of cash and all uses of cash over a period of time. Remember, an income statement lists only business income less business expenses. This period of time could be completed weekly, monthly or annually. The point is that the business cannot run out of money or it is out of business. Remember, a cash flow statement takes into account money borrowed, principle payments and any other sources and uses of cash. An historical cash flow statement lists cash flow over a period of time in the past.

The balance sheet, income statement, and cash flow statement are important financial documents. Some businesses may require other financial documents. For example, budgets, a tool that can be used to analyze the business using historical and/or projected financial information, can be very helpful.



Farm Related Tax Rules, Exemptions, and Incentives

Tax Exemptions for Farm Buildings, Farm Machinery, Horses, Ponies used in Farming

- CT General Statutes Section 12-91: \$100,000 for machinery and equipment.
- Additional \$100,000 for machinery if municipality votes on it.
- \$100,000 for farm building used actually and exclusively in farming, if municipality votes on it.

- Horses and ponies used in farming shall be totally exempt from local property tax.
In order to receive any of above exemptions must derive at least \$15,000 in gross sales or \$15,000 in expenses on farm.
Need to apply on Form M-28 Exemption Application to the Town Assessor by October 31

All farmers must file a personal Property Declaration Form with assessor (Form M-15 or town may have their own form) listing all taxable personal property they own in order to claim any farm exemptions:

C.G.S. Sec. 12-81. Exemptions. The following-described property shall be exempt:

- (10) Property belonging to agricultural or horticultural societies.
- (36) Commercial fishing apparatus. Fishing apparatus belonging to any person or company to the value of five hundred dollars, providing such apparatus was purchased for use in the main business of such person or company at the time of purchase;
- (38) Farming tools. Farming tools actually and exclusively used in the business of farming on any farm to the value of five hundred dollars (shall not apply to anyone receiving Sec 12-91 exemption for farm machinery):
- (39) Farm produce. Produce of a farm, actually grown, growing or produced, including colts, calves and lambs, while owned and held by the producer or by a cooperative marketing corporation organized under the provisions of chapter 596, when delivered to it by such producer;
- (40) Sheep, goats and swine. Sheep, goats and swine owned and kept in this state;
- (41) Dairy and beef cattle, oxen, asses and mules. Dairy and beef cattle, oxen, asses and mules, owned and kept in this state;
- (42) Poultry. Poultry owned and kept in this state;
- (44) Nursery products. Produce or products growing in any nursery, and any shrub and any forest, ornamental or fruit trees while growing in a nursery;
- (61) Vessels used primarily for commercial fishing. Any vessel as defined in section 15-127 used primarily for purposes of commercial fishing, provided in this subdivision not less than fifty per cent of the adjusted gross income of such owner, as determined for purposes of the federal income tax, is derived from commercial fishing subject to proof satisfactory to the assessor in the town in which such application is submitted;
- (68) Livestock totally exempt except that exemption for horses and ponies limited to one thousand dollars in value unless used in farming in the manner required in section 12-91, shall be totally exempt from local property tax as provided in said section 12-91;
- (73) Temporary devices or structures for seasonal production, storage or protection of plants or plant material.

Optional Property Tax Abatement

In addition, a municipality may further reduce property taxes on farm business pursuant to CGS Section 12-81m. This provision allows towns to abate up to 50% of the property taxes for a number of businesses including dairy farms, fruit orchards, vineyards, nurseries, vegetable farms, farm employing nontraditional farming methods, tobacco, or commercial lobstering operated on maritime heritage land. Towns may also adopt a process to recapture abated taxes if the farm is sold.

Real Estate Tax – Public Act 490

This Connecticut law allows your farm, forest, or open space land to be assessed at its use value rather than its fair market or highest and best use value (as determined by the property's most recent "fair market value" revaluation) for purposes of local property taxation.

The lower use value assessment helps many farmers more readily afford local property taxes. Special rules apply and you need to be sure you understand the rules for enrolling your land in PA-490.

The law was passed by the Connecticut legislature in 1963. Every state in the nation has a Use Value Assessment law for its farm, forest, or open space land. Each state has different rules in regards to its particular Use Value Assessment law. Even in the early 1960's legislative intent identified PA 490 as an important land preservation tool.

Property Tax Savings

Public Act 490 offers the potential to save on property taxes. Each situation is different; however, the savings can be significant.

Land Qualification

Your local town assessor makes the determination if your land qualifies after you have submitted the appropriate application within the required filing period. Forms are available through your local assessor's office or visit the Connecticut Association of Assessing Officers www.caaao.com for downloadable forms.

Appeals

As a taxpayer, you have the right to appeal your assessor's decision to your town's Board of Tax Review. It is suggested that you contact the CT Farm Bureau 860-768-1108; www.cfb.org or CT Department of Agriculture www.ct.gov/DOAG/ before you proceed with your appeal. These service agencies do not offer legal advice or possess the authority to overturn your town's decision. However, they are experienced and knowledgeable in Public Act 490. Their insight might help you determine if you have a valid case on which to proceed.

Maintaining PA 490 Status

Once you have been granted a farm, forest, or open space land classification under Public Act 490, the classification can only be removed if the use of the land changes or the land ownership changes. Once the ownership of the land changes (a change in legal entity, new owners, etc.), the farm, forest, or open space land classification is lost, and the new owner(s) must reapply.

Your town does have the right to periodically ask you for an update of the usage of your Public Act 490 land. It is important to follow up with the assessor when this information is requested and to respond with accurate and up to date information on your PA 490 land. A new application is not required but rather an update of information on the existing application. Completion of a new application may lead to some confusion that should be resolved before you proceed.

PA 490 Land Use Statutes

- Found in CT General Statutes (CGS) 12-63 & 12-107, a-f in the Taxation Chapter of the statutes

PA 490 Forestland Classification

- Must own 25 acres of forestland. Landowner must hire a Certified Forester to obtain a report certifying the land is forestland.

PA 490 Farm Land Classification

- There is no minimum acreage or income requirement for PA 490 Farm Land classification.
- Classification is based on the current agricultural usage of the land at the time of application. Refer to the current Recommended Land Use Values for PA 490 available from the CT Department of Agriculture (see chart).

PA 490 Open Space Classification

Unlike forest land and farm land, which is mandatory statewide, the Open Space classification must be adopted by the municipality. Verify with the local assessor as to whether a parcel of land would qualify for the Open Space classification.

PA 490 Conveyance Tax

There is a tax penalty phase on the removal of land from any PA 490 classification within the first ten years of ownership or classification, whichever comes first for forest and farm land. Conveyance is from the time of classification for Open Space. There are a number of exempted transfers provided for in the statute. Any transfers of title on land classified under PA 490 within the first ten years should be given careful consideration and planning to avoid the conveyance tax.

Relevant forms are listed below:

- M-29 Exemption App. to Town Assessor for Classification of land as Farmland
- M-30 Exemption App. to Town Assessor for Classification of land as Open Space
- M-30a Exemption App. to Town Assessor for Classification of land owned by Tax Exempt Organization as Open Space Land
- M-39 Exemption App. to Town Assessor for Classification of land as Forest land

Public Act 490 Land Values

2010 Recommended Land Use Values (Effective October 1, 2010)

From Connecticut Department of Agriculture

Category	State-Wide	River Valley
Tillable A	\$2,400	\$2,800
Tillable B	\$1,600	\$2,000
Tillable C	\$400	\$1,100
Tillable D	\$225	\$600
Orchard E	\$750	\$750
Pasture F	\$90	\$90
Swamp/Ledge/Scrub G	\$40	\$40
Forest/Woodland	\$130	\$130

Land Classifications

Connecticut Land Classifications are based on general soil characteristics determined by the USDA – Natural Resources Conservation Service’s “Land Capability Classification System.” State law requires revaluation of farm, forest and open space land be conducted every five years.

- Tillable A: Excellent. Light, well drained, sandy loams, typically flat or level, no stones. Shade tobacco, nursery, some cropland.
- Tillable B: Very Good. Light, well drained, sandy loams, typically level to slightly rolling, may have stones. Binder tobacco, vegetables, potatoes, some cropland.
- Tillable C: Very Good to Good. Quite level. Moderate heavier soils, level to rolling, may have stones. Corn silage, hay, vegetables, potatoes, cropland.
- Tillable D: Good to Fair. Heavier soils, maybe sloped and hilly, stones and seasonal wetness may be limiting factors. Moderate to considerable slope. Hay, corn silage, rotation pasture, cropland.
- Orchard: Fruit orchard. May include grapes and berries.
- Pasture: Permanent Pasture, unmanaged pasture, not tilled, grazing. May be heavier soils too wet or stony to till for crops, may be wooded area, Christmas trees.
- Swamp/Ledge/Scrub Lands: Wetlands, ledge outcroppings. Non-farmable areas that also make up the farm unit.
- Forest/Woodland: Forestland associated with the farm unit. Non farmable areas that also make up the farm unit.

Business and Sales Taxes

All agriculture businesses usually must register with the CT Department of Revenue Services (DRS). They must file a REG – 1 that is a registration form that sets up a business for any taxes it may be liable for such as business and sales taxes.

Any farmer selling goods must register for a seller's permit and collect sales tax on the sale of taxable goods. Taxable goods commonly sold by farmers include plants, seeds, hay, feed, mulch, fertilizer (including manure), livestock, poultry, rabbits, Christmas trees (live or cut), wreaths, decorated or carved pumpkins, and flowers.

(Note: The exemption from tax for the sale of poultry, rabbits, livestock, feed, seeds, fertilizer, hay and vegetable plants was repealed in 1991. Sales made on or after October 1, 1991, became taxable.)

Food products including maple syrup, honey, eggs, cider, cakes and pies, vegetables and fruits are exempt from tax.

(Note: Sales of candy and soda are subject to tax because they are not considered food products.)

See Policy statement 2002 (2), Sales and Uses Taxes on meals for more information.

To obtain a seller's permit, an applicant must complete and submit REG-1, Application for Tax Registration Number, and pay an application fee. The permit is valid for two years and may be renewed without an additional fee. Application can be made by mail or in person at the Department of Revenue Services offices in Hartford, Norwich, Bridgeport, Hamden, and Waterbury.

Filing Requirements: Generally, sales and use tax returns are filed on a quarterly basis.

If a seller's sales and use taxes liability exceeds \$4,000.00 per year, he or she must file monthly. Monthly returns are due on or before the last day of the following month. A seller may request permission to file on an annual basis if his or her sales and use taxes liability is less than \$1,000 per year.

Reference:

Connecticut Department of Revenue Service Informational Publication 2008(19), Farmer's Guide to Sales and Use Taxes, Motor Vehicle Fuels Tax, Estimated Income Tax, and Withholding Tax .

Connecticut Sales Tax Exemption Permit for Farmers

If the farmer qualifies for and has been issued a Farmer Tax Exemption Permit by the CT Department of Revenue Services (DRS):

- Retail sales of tangible personal property used exclusively in agricultural production are exempt from sales and use taxes, if the purchaser qualifies for and has been issued a Farmer Tax Exemption Permit by the Department of Revenue Services (DRS). Your purchases do not qualify for the exemption if equipment and supplies purchased are used other than in the production of agricultural products grown or raised by you.
- Lumber, hardware, and other building materials sold directly to a farmer for the construction or renovation of a farm structure used exclusively in agricultural production, such as a barn for farm animals or a storage building for the harvest, can be purchased exempt from sales and use taxes.

- This Tax exemption does not apply to services. Plowing, planting, harvesting, fertilizer application, excavating, and other services are taxable as services to income-producing real property. Repairs to a farm vehicle are taxable as motor vehicle repair services.
- You may purchase motor vehicle fuels exempt from tax, at other than a retail outlet, as long as the gasoline or diesel fuel is used either in a vehicle not licensed to be operated on state highways, or in a vehicle registered exclusively for farm use with the Department of Motor Vehicles. In addition, the fuel may not be delivered to a tank in which you keep fuel used for both farm and non-farm purposes.

Purchase of electricity, gas, or heating fuel for farm buildings is tax-free, as long as 75% or more of the gas, electricity, or heating fuel is consumed in a metered building or location used for agricultural production.
- If sales tax is not paid on taxable goods or services, use tax is owed on those goods.

CT Farmers Sales Tax Exemption Eligibility

Any person engaged in agricultural production as a trade or business is eligible for an exemption permit. To be engaged in agricultural production as a trade or business, a person must both engage in the production with a profit motive and materially participate in the production. The applicant must also meet one of the following requirements:

1. The applicant had gross income of \$2,500 or more from agricultural production, as reported for federal income tax purposes, in the preceding taxable year or, on average, in the two preceding taxable years;
2. An applicant whose gross income from agricultural production in the preceding taxable year was less than \$2,500 may still qualify for an exemption permit if, in the current or immediately preceding taxable year, the applicant bought an agricultural trade or business from a seller who had an exemption permit at the time of the sale. However, if the applicant does not carry on the agricultural trade or business for at least two years from the date of purchase, the applicant will be liable for the sales or use tax that would have been due without the exemption; or
3. The applicant is starting a new farming business (start-up farmer) and intends to carry on agricultural production as a trade or business for at least two years.

Qualification as a Start-up Farmer

For exemption permit purposes, a start-up farmer is a person who:

1. Was not engaged in agricultural production as a trade or business in the preceding taxable year, or;
2. Did not have gross income of \$2,500 or more from agricultural production, as reported for federal income tax purposes, in the preceding taxable year, or on average in the two preceding taxable years.

Exemption Permit Eligibility as a Start-up Farmer

To qualify for an exemption permit, a start-up farmer must satisfy the following requirements:

1. The farmer intends to carry on agricultural production as a trade or business for at least two years after the exemption permit is issued;
2. The farmer's gross income from agricultural production, as reported for federal income tax purposes, will be at least \$2,500 in the second year or an average of at least \$2,500 per year for two years after the exemption permit is issued; and
3. The farmer's gross expenses from agricultural production, as reported for federal income tax purposes, will be at least \$2,500 in the second year or an average of at least \$2,500 per year for two years after the exemption permit is issued.

Example: In the first year of farming, a start-up farmer had \$1,500 of gross income and \$3,000 of expenses from agricultural production. In the second year, the start-up farmer had \$3,500 of gross income and \$2,000 of expenses from agricultural production. The average gross income is \$2,500 $((\$1,500 + \$3,500)/2)$ and the average expenses are also \$2,500 $((\$3,000 + \$2,000)/2)$. This start-up farmer satisfies the income and expense tests.

If the start-up farmer does not meet all of these requirements, the farmer is liable for the sales or use tax that would have been due without the exemption. The tax on the purchases made under the exemption during the two year start-up period is due and must be paid with the first sales and use tax return due following the end of the start-up period.

If the start-up farmer does not meet the renewal requirements, the farmer may not reapply for an exemption permit as a start-up farmer.

Definitions of Agricultural Production Farming Activities

Farming activities that are considered agricultural production include: raising and harvesting any agricultural or horticultural commodity; dairy farming; forestry; raising, boarding or training livestock and poultry; or raising and harvesting fish, oysters, clams, mussels, or other molluscan shellfish are considered agricultural production.

Individuals engaged solely in buying agricultural products for resale are not engaged in agricultural production. For example, cut flowers or plants sold by a farmer at a roadside stand are not agricultural products if the farmer purchased the flowers or plants for resale.

Likewise, individuals whose only agricultural income is from farm rental or from the sale of livestock or crops received by them in payment for farm rental or other services are not engaged in agricultural production and may not include the income as income from agricultural production. Income from the sale of farm assets reported on federal Form 4797 is not income from agricultural production.

Income from petting zoos, pony rides, carriage rides, or riding lessons is not considered income from agricultural production.

Eligibility for Exemption: Special Cases

1. **Timber Sales**

Sales of timber by a person who is not engaged in farming or forestry management do not qualify as sales of agricultural products raised in agricultural production. Those engaged in forestry management must provide proof that a forest management plan is on file with the Department of Environmental Protection.

2. **Boarding Horses**

Agricultural production includes the raising, feeding, caring for, shearing, training, or management of livestock, including horses. A farmer, who boards or trains horses and meets the eligibility requirements may qualify for an exemption permit. However, the income from giving riding lessons or providing rough board, which does not include the feeding and care of horses, does not constitute income from agricultural production. See ruling No. 96-5.

3. **Livestock Breeders**

A breeder who meets the eligibility requirements may qualify for an exemption permit. A breeder who is required, for federal income tax purposes, to treat his or her income from the sales of livestock as capital gains does not qualify.

4. **Operation of Fish Farm or Hatchery**

The operation of a fish farm or hatchery is considered agricultural production; therefore, the operator is eligible for an exemption permit. However, if you are not raising fish but are engaged in commercial fishing, you should apply for a Commercial Fisherman Tax Exemption Permit by completing REG-14, Application for Commercial Fisherman Tax Exemption Permit obtained from Connecticut Department of Revenue Service.

Exemption Permit Application Procedure

Form REG-8, Application for Farmer Tax Exemption.

- Allow at least four weeks for DRS to process your application and mail your exemption permit.
- The name (or names) that appear on the Form REG-8 must be the same as the name (or names) on the federal return.
- Attach copies of any federal income tax return schedules (for example, Schedule C or Schedule F) used to report the gross income and expenses from agricultural production, and copies of the federal return pages, as explained in the instructions for Form REG-8. If you submit a copy of Schedule C you must include a list of the agricultural products you raise and the total sales from each product. If you filed federal Form 4835 to report farm rental income based on crops or livestock produced by the tenant, you must attach a copy to Form REG-8. Income from farm rental is not income from agricultural production even if you sold the crops or livestock you received from the tenant.

Connecticut Farm Plates

Conditions for Farm Exemption by the CT Motor Vehicle Department (DMV)

All the following conditions must be met for a vehicle to qualify for the farm exemption (Fines may be imposed for misuse of plates.):

- The vehicle must be used exclusively in agricultural production;
- An agricultural sales tax exemption permit must be issued by the Department of Revenue Services; and
- Gross farm income in the preceding calendar year was not less than \$2,500.
- Farm plated vehicles are prohibited from transporting goods for hire
- Farm plated vehicles are not subject to mileage restrictions in Connecticut.
- Farm plated vehicles are not subject to Connecticut emissions inspections.
- Vehicles with Connecticut Farm Plates may travel in states that also have a farm or agricultural registration law. However, the driver of the Connecticut vehicle must comply with the farm registration laws of the state within which he is traveling.

Application

The initial application for a farm plate must be made in person at a Department of Motor Vehicles office. If the vehicle being registered is 10 years old or more, or was last registered out of state, it will have to be inspected.

Forms needed are:

Agricultural Sales Tax Exemption Permit (OR-248)

Application for Farm Plate (DMV)

Farm Tractors

Registration of farm (agricultural) tractors and self-propelled agricultural equipment is not required. Farm tractors and self-propelled agricultural equipment may not be used on public roads for transporting goods for hire (transporting products of others for pay or for other commercial purposes). When operating on a public road at speeds less than the posted speed limit, the driver of a farm tractor or self-propelled agricultural equipment must yield to vehicles approaching from behind. Farm tractors and self-propelled agricultural equipment not designed or employed in general highway transportation are not permitted on limited access highways. Tractors traveling on public highways should be equipped with flashing lights and a Slow Moving Vehicle (SMV) orange reflective triangle.

Commercial Motor Vehicles

The term “commercial motor vehicle” applies to the gross vehicle weight rating of the vehicle or the vehicle in combination with another motor vehicle and not the use of the vehicle. Farmers often hear the term “commercial motor vehicle” and assume that does not refer to them because they are engaged in a farming operation not a commercial operation.

A “commercial motor vehicle” is defined as any motor vehicle that operates in intrastate commerce (within Connecticut only) with a gross vehicle weight rating (GVWR), or gross truck/trailer combination weight rating (GCWR) of 18,001 pounds or more; or a vehicle that operates in interstate (travels across state lines) commerce with a gross vehicle weight rating (GVWR) or gross truck/trailer combination weight rating (GCWR) of 10,001 pounds or more. Check with the Department of Motor Vehicles on the laws and regulations that apply to these motor vehicles.

IRS Hobby Loss Rules

This section is designed to provide general information regarding hobby loss and does not offer tax advice. Always consult a qualified tax accountant when dealing with tax issues.

Losses derived from a for-profit business are allowed against other taxable income. Losses from an activity not engaged in for profit are ruled by IRS code section 183. The hobby loss rules state that you lose the ability to deduct the business losses when your business does not produce a net profit in at least three of the five last years including the current year (two of seven including the current year for activities that consist primarily of breeding, training, showing, or racing horses). If a business profit is generated in at least three of five years the IRS presumes that you are engaged in a for profit business and provides a safe harbor allowing losses to be deducted in loss years.

The following factors are important in establishing intent for a for-profit business. Even if your business fails the (3 of 5 or 2 of 7) years of profit test, you still may be considered to operate your farm for profit by considering the following factors. All factors are taken into account.

No one factor is decisive.

- You and/or advisors have the skills needed
- You have a history of profitability in similar businesses
- You make a profit from farming in some years.
- You can expect to make a future profit from the appreciation of the assets used in the farming activity



Farm Business Licensing and Registrations

Introduction

When starting up a new business it is important to find out what licenses and registrations apply to you. This can be complex as local, state, and federal governments all handle registration and licensing for various aspects of your business. This chapter will serve as a guide for obtaining appropriate certifications, understanding licensing and registration specific to farm businesses, and accessing important information and services from various state departments.

There are many permits and licenses that many businesses are required to get. Visit Smart Start and the Agency help box at www.ct-clic.com for details

Connecticut State Departments

Several state departments provide useful services and assistance for those starting businesses. Depending on your needs, it is important to understand the function and capabilities of each department as well as how you can benefit from its services.

Department of Agriculture (DOAG)

www.ct.gov/doag

According to its mission statement, the DOAG is designed to foster a healthy economic, environmental and social climate for agriculture by developing, promoting and regulating agricultural businesses; protecting agricultural and aquacultural resources; enforcing laws pertaining to domestic animals; and promoting an understanding among the state's citizens of the diversity of Connecticut agriculture, its cultural heritage and its contribution to the state's economy.

Some functions include: domestic animals, milk safety, animal health, animal control, dairy licensing for milk and cheese production, inspection of small on-farm poultry processing operations, shellfish licensing, administering farmers markets, providing agricultural grants, supports Farm Link Program, supports Farmland Preservation Program, and supports aquaculture programs including shellfish and raising freshwater fish.

Department of Environmental Protection (DEP)

www.ct.gov/dep/

DEP achieves its mission through regulation, monitoring, inspection and enforcement, and licensing procedures that help control air, land and water pollution in order to protect health, safety, welfare and natural resources. The DEP also improves and coordinates the state's environmental plans, functions and educational programs in cooperation with federal, regional and local governments, other public and private organizations and concerned individuals, while managing and protecting the flora and fauna for compatible uses by the citizens.

Some functions include: lobster licensing, commercial marine fishing licensing, waste and manure management, water diversion for irrigation, water discharge permits, energy efficiency programs, pesticide certification and applicators licensing, commercial arborist licensing, game breeders licensing, and fish hatchery licensing.

Department of Revenue Services (DRS)

www.ct.gov/drs/

The DRS is designed to administer tax laws and collect tax revenues. The agency is responsible for ensuring voluntary compliance with the tax laws by educating the public about their tax responsibilities and by assisting taxpayers in filing appropriate tax returns and paying taxes. The department also collects unpaid taxes and applies enforcement measures when necessary.

The following permits and forms are available through the DRS: Farmers Tax Exemption Permit, Sales and Use Tax Permit, Motor Vehicle Fuel Tax, and Exempt Farm Product Sales among many others.

Department of Consumer Protection (DCP)

www.ct.gov/dcp

The DCP is responsible for protecting citizens from marketplace fraud, unfair business practices, and physical injury from unsafe items. This protection is achieved through licensure, inspection, investigation, enforcement and public education activities in five major areas including: food and standards; drugs, cosmetics and medical devices; alcoholic liquor; occupational and professional licensing; and trade practices.

Some functions include: inspecting facilities that manufacture processed foods for sale, issuing licenses for bakery, cider, beverage and frozen dessert, labeling requirements for packaged food and drink, sanitary requirements in food establishments, farmer's markets administering liquor licensing of farm wineries, scale accuracy for weighing products, and labeling and packaging of meat.

Department of Public Health (DPH)

www.ct.gov/dph

The DPH is designed to protect and improve the health of people. It plays a significant role in administering the local health departments, which administer sanitary requirements for farm stands and farmers markets that serve food and drink, including samples. Local/district health departments may also inspect and/or license food processors, and can be very helpful even if not required.

Department of Economic & Community Development (DECD)

www.ct.gov/ecd

The DECD develops and implements policies, strategies and programs which are designed to enhance Connecticut's communities and business and housing environments. A significant function of the DECD is to provide loans for farm businesses.

Connecticut Agricultural Experiment Station (CAES)

www.ct.gov/caes

The mission of The Connecticut Agricultural Experiment Station is to develop, advance, and disseminate scientific knowledge, improve agricultural productivity and environmental quality, protect plants, and enhance human health and well-being through research for the benefit of Connecticut residents and the nation.

Farm Business Licensing and Inspection

visit www.ct-clic.com/TradeLicenses/agencyLicense.asp?agID=16&view=&pageNum=1

Aquaculture

www.ct.gov/DOAG/cwp/view.asp?a=1369&q=259168

CT Department of Agriculture is designated as the lead agency for shellfish licensing, commercial fish hatcheries, and land-based aquaculture production.

Bureau of Aquaculture, P.O. Box 97, Rogers Ave., Milford, CT 06460

Arborists, Nursery and Bee Keeping (Apiary)

Those involved in these three activities will have to register with the CT Agricultural Experiment Station. Visit www.ct.gov/caes for information on registrations and licenses. Arborists must also obtain a license from the CT DEP, www.ct.gov/dep/

Dairy

Those involved in dairy practices will need to obtain a license. For more information contact the CT DOAg Dairy Division at 1-860-713-2508 or www.ct.gov/DOAG/

Eggs

See Farmers' Market Reference Guide:

www.ct.gov/doag/lib/doag/marketing_files/21._Eggs_4-1-2009.pdf

Farmers Markets

WIC market certification and market information: CT DOA at -860-713-2503;
www.ct.gov/doag/lib/doag/marketing_files/05b__WIC_Fruit_and_Vegetable_Check_Program_3-24-2010.pdf

Farm Wineries

CT Department of Consumer Protection, www.ct.gov/dcp/ -Liquor Control to obtain proper licensing
.Federal Bureau of Alcohol, Tobacco and Firearms (AFT) www.aft.gov for a federal license.

Food Establishments

Connecticut Department of Consumer Protection
1-860-713-6160 food.standards@po.state.ct.us

State Statutes Section 21a-101

www.ct.gov/dcp/lib/dcp/dcp_regulations/21a-101_sanitary_standards_for_food_establishments.pdf

(9) “Food Establishment” means any establishment in which food is stored, offered for sale, processed, or prepared, other than an eating or drinking establishment, and includes the transportation of any food; Note- processing includes cutting of produce.

(a) All food shall be from an approved source and shall be clean, wholesome, free from spoilage, decay, or misbranding, and safe for human consumption. All food products, while being stored, prepared, or transported, shall be handled so as to prevent their becoming contaminated with filth.

Public Health Code Section 19-12-B40

Any person, firm, or corporation that sells, offers for sale or keeps for sale any groceries, bakery products, confectioneries, meats, fish, vegetables, or fruits in a retail food setting shall contact the local director of health for required permits, licences, or inspections.

Public Health Code section 19-13-B42

Any place where food or beverages are served to the public shall contact the local director of health for required permits, licenses, or inspections. This includes farm stands and Farmers Markets. Also reference the farmer's market reference guide, chapters 11 and 12 for further information.

Pesticide Applicator Licensing

www.ct.gov/dep/pesticides

In Connecticut, a farmer must be certified as a private applicator in order to purchase and use restricted use pesticides on agricultural crops (No certification is needed if a farmer does not use restricted use pesticides). Only one certificate per farm is needed.

General Information

The pesticide private applicator certification program is open to persons who intend to use or supervise the use of restricted use pesticides on property owned or rented by them or their employer for the purpose of producing an agricultural commodity. Federal regulations (40 CFR 171) prevent the State of Connecticut from certifying homeowners or home gardeners as private applicators.

Requirements for Certification

An examination is required before a private applicator certificate can be issued. As a minimum requirement for certification, a private applicator must show that they possess a practical knowledge of laws pertaining to pesticide applications and the pest problems associated with their farming operation. This practical knowledge includes ability to recognize common pests and damage caused by them. Recognition is critical because it is the first step in control. The private applicator must be able to recognize the pest problem before they select among the available pesticides.

License Requirements

Any person who uses restricted use pesticides must be licensed in order to be able to purchase such products. With the exception of commercial applications, licensing is not required if only general use pesticides are used.

Any person who sprays another's property in exchange for money must possess a commercial applicator's license. However, individuals that are licensed as a private applicator can spray another's property in exchange for services (i.e. applicator might trade a spray job in the spring for help with harvest in the fall).

A farmer wishing to use restricted use pesticides must obtain a “private applicator’s license.” The private applicator may then buy and apply restricted use pesticides on their own farm, property they rent or on the farms of others, provided that they do not get paid to do so.

It is not necessary for the licensed private applicator to actually perform all pesticide applications. An employee or family member can apply pesticides, however, the license holder is responsible for training the person who actually does the work, and must be available if needed.

Private applicators are required to maintain records with respect to each use of restricted use pesticide and must file a report of their usage with the DEP on or before January 31st each year for the previous year’s applications.

In accordance with state regulation 22a-66-5(e), if your address changes, you must notify the Pesticide Management Program within 30 days.

Procedures for Taking the Pesticide Private Applicator’s Examination

1. You must be 18 years of age or older to take the pesticide private applicator’s exam.
2. Complete the Application for Pesticide Private Applicator’s Examination and submit it, along with the required fees (check or money order for \$200.00 payable to the Department of Environmental Protection) to the address on the application form. Be sure to sign and date the form.
3. The pesticide applicator license examination is given by appointment only. To schedule an appointment, contact the Pesticides Management Program at 860-424-3369 or linda.schmidt@ct.gov
4. You must present a photo ID at the time of exam.

Study Materials

The examination is based on the following publications:

1. Pesticide Applicator Training Manual (Core Manual) which can be purchased from:

University of Connecticut	Cornell University
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Agricultural Publications	Pesticide Manuals
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Box U-35	95 Brown Road
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Storrs, CT 06268	RM 223, Box 1043
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Phone: (860) 486-3336	Ithaca, NY 14850
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Phone: (607) 255-7282

Fax: (607) 255-7311

2. Pesticide Private Applicator Study Manuals (Commodity Booklets)

The commodity booklets are prepared as a study guide for those individuals seeking certification as private applicators in Connecticut. Each one contains brief descriptions of the major pests of each crop, their life cycles and the damage they cause to the host plants. The commodity booklets are not to be considered a complete source of information. Information on integrated pest management (IPM) and suggested spray schedules may be obtained from the Connecticut Cooperative Extension Service www.extension.uconn.edu/ or Connecticut Agricultural Experiment Station at (203) 974-8500 or www.ct.gov/CAES

Commodity booklets available on-line from the DEP website:

www.ct.gov/dep/cwp/view.asp?A=2710&Q=324274

- Greenhouse Pesticide Management, Private Pesticide Applicator Training Manual
- Christmas Tree Study Manual
- Nursery Study Manual
- Small Fruit Growers Study Manual
- Vegetable Study Manual

Commodity booklets available by contacting the DEP, Pesticide Management Program:

- Dairy Study Manual
- Livestock Study Manual
- Mushroom Study Manual
- Orchardist Study Manual
- Poultry Study Manual
- Tobacco Study Manual
- Turf Study Manual

Available at UCONN On-line store: www.hort.uconn.edu/ipm/general/edops/pubs.htm

- New England Greenhouse Floricultural Recommendations Management Guide, Poinsettia Manual
3. Protecting Honey Bees from Pesticide Poisoning pamphlet available online from the DEP website
 4. Pertinent Pesticide Statutes and Regulations for Certified Private Applicators available online from the DEP website

Certificate Renewal

The private applicator certificate must be renewed prior to the expiration date that appears on the certificate. Renewal information will be mailed to private applicators prior to the expiration of the certificate.

Private Applicator Recertification

Private applicators must obtain 12 continuing education credit hours per licensing period for renewal of their license. Credit can be obtained by attending specific meetings/seminars provided by sponsors at various locations throughout the state.

Annual Pesticide Use Summary Reports

www.ct.gov/dep/

Private pesticide applicators are required to maintain records with respect to each use of restricted use pesticides. This requirement includes submitting an annual Private Applicator Restricted Use Pesticide Summary Report. DEP may refuse to renew certification of an applicator for failure to submit this report.

Additional Information

For more information call the Pesticide Management Program at 1-860-424-3369, e-mail Pesticide Coordinator at linda.schmidt@po.state.ct.us, or write to:

Department of Environmental Protection
Bureau of Materials Management and Compliance Assurance
Pesticide Management Program
79 Elm Street
Hartford, CT 06106-5127

www.ct.gov/dep/

Organic Farming Certification

A Certified Organic Farm is in compliance with the National Organic Program (NOP) standards, and has been inspected and certified by an accredited USDA certifying agent. Products have been grown/raised without the use of synthetic fertilizers, pesticides, growth hormones, irradiation, or genetic engineering. The certification process requires record keeping, payment of an annual fee, and an annual inspection.

The National Organic Program allows farmers who sell less than \$5,000 worth of organic produce per year to call their produce “organic” if they follow the national standards. This produce is not certified.

Becoming Certified Organic

Bay State Organic certifies many organic farms in Connecticut and Massachusetts. Visit their website at www.baystateorganic.org or call Don Franczyk at 1-978-297-4171.

There is also the Certified Naturally Grown certification

www.naturallygrown.org

From www.nal.usda.gov/afsic/pubs/ofp/ofp.shtml

USDA National Organic Standards Board (NOSB) definition, April 1995

- “Organic agriculture is an ecological production management system that promotes and enhances biodiversity, biological cycles and soil biological activity. It is based on minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony
- “Organic’ is a labeling term that denotes products produced under the authority of the Organic Foods Production Act. The principal guidelines for organic production are to use materials and practices that enhance the ecological balance of natural systems and that integrate the parts of the farming system into an ecological whole.
- “Organic agriculture practices cannot ensure that products are completely free of residues; however methods are used to minimize pollution from air, soil, and water.
- “Organic food handlers, processors and retailers adhere to standards that maintain the integrity of organic agricultural products. The primary goal of organic agriculture is to optimize the health and productivity of interdependent communities of soil life, plants, animals and people.”

Organic Labels

Reading any type of food label can be a confusing proposition. The following are some common labeling terms that can easily be misinterpreted. Organic food must be certified by a USDA accredited independent agency to meet the following requirements:

- The land must be free of prohibited materials (including synthetic fertilizers, pesticides, and sewage sludge) for 3 years prior to certification and then continuously through the licensing period;
- Genetically modified organisms and irradiation are prohibited;
- Soil conservation, manure management, and crop rotation practices should be used;
- Avoid antibiotic and hormone use in animals;
- Provide outdoor access and pasture for livestock;
- Use 100% organic feed for the animals;
- Avoid contamination during the processing of organic products;
- Detailed records of organic methods, materials and harvests must be kept.

According to the USDA National Organic Program, there are four “organic” designations:

1. 100% Organic must contain only organically produced ingredients. The name of the certifying agency must appear on the label.
2. Organic indicates that 95% of the ingredients are 100% certified organic. The remaining 5% must come from a USDA-approved list. The name of the certifying agency must appear on the label.
3. Both 100% Organic and Organic must document their compliance in order to display the USDA organic seal.
4. Made with Organic Ingredients indicates that at least 70% of the ingredients are organic. The remaining 30% must come from a USDA-approved list. The agency name must appear on the label, but the product does not qualify to display the USDA seal.

Processed products containing less than 70% organic ingredients cannot use “organic” anywhere on the principle display area of the packaging material. They may list a specific organic ingredient within the ingredients list. These products cannot be certified or display the USDA seal. Note: A USDA organic standard is not yet in place for seafood or fish.

Northeast Organic Farming Association (NOFA) Farmers Pledge www.ctnofa.org

The Farmer’s Pledge is a commitment to farming, marketing and farm management in accordance with sound ecological and economic principles. It is separate and distinct from “Certified Organic.” There is no inspection process for the Farmer’s Pledge, but the farmers have signed the Pledge to show their commitment to its principles. CT NOFA administers the Farmer’s Pledge program in Connecticut. However, CT NOFA does not investigate or make any guarantee that the individual farmer is complying with the Farmer’s Pledge.

Every spring, all Farmer’s Pledge farms are featured in CT NOFA’s annual Farm & Food Guide. Last year 10,000 copies of the Guide were printed and distributed all over the state at farmers markets, agricultural and environmental events, and wherever people were looking for healthy and sustainably grown food. In addition, the Guide is posted on CT NOFA’s website, so your farm’s listing is available to everyone who visits www.ctnofa.org.

All you have to do to be included in the program is to sign two copies of the Pledge and return them to CT NOFA. They will initial and date both copies, affix the CT NOFA seal and laminate one copy and return it to you. You are encouraged to display your copy of the Pledge at your farm, farm stand, farmers' markets and anywhere else where folks care about good food. CT NOFA keeps the other copy of the Pledge for their records. You or your farm must be a CT NOFA member to participate. The Farmer's Pledge must be renewed each year, and CT NOFA will contact you each winter to get your Pledge updated. New Pledge farmers can get started at any time of year, so if you are interested in signing the Pledge or receiving more information, please contact the CT NOFA Office at (203) 888-5146 or ctnofa@ctnofa.org.

Natural Products

"Natural" has an official USDA designation only when used for meat or poultry. Natural products must not contain any artificial colors or flavors, synthetic ingredients or chemical preservatives. There is no system in place to verify its accuracy when the term is used by a manufacturer or marketing company.



Payroll and Employment Issues

Payroll - Employer Requirements

It may be easier for a small business to have contractors instead of employees but calling someone a contractor does not make him one. If a labor or tax authority determines that your contractor is really an employee, you can be responsible for paying back payroll taxes, unemployment taxes and other related expenses.

A general rule is that anyone who performs services for you is your employee if you can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed. There are specific guidelines to follow when considering whether someone is an independent contractor or an employee.

You must look at the totality of the situation. Some of the factors deemed to be significant are:

- Permanency of relationship
- Amount of alleged contractor's investment in equipment and facilities
- Nature and degree of control by principle
- Alleged contractor's opportunities for profit and loss
- Amount of judgment on part of alleged contractor
- Contract for job to be performed
- Other factors to consider

IRS 20 Factor Test – Independent Contractor or Employee?

The IRS test often is termed the “right-to-control test” because each factor is designed to evaluate who controls how work is performed. Under IRS rules and common-law doctrine, independent contractors control the manner and means by which contracted services, products, or results are achieved. The more control a company exercises over how, when, where, and by whom work is performed, the more likely the workers are employees, not independent contractors.

A worker does not have to meet all 20 criteria to qualify as an employee or independent contractor, and no single factor is decisive in determining a worker's status. The individual circumstances of each case determine the weight IRS assigns different factors.

Note: Employers uncertain about how to classify a worker can request an IRS determination by filing Form SS-8, “Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding.” However, some tax specialists caution that IRS usually classifies workers as employees whenever their status is not clear-cut. In addition, employers that request an IRS determination lose certain protections against liability for misclassification.

The 20 factors used to evaluate right to control and the validity of independent contractor classifications include:

- Level of instruction. If the company directs when, where, and how work is done, this control indicates a possible employment relationship.
- Amount of training. Requesting workers to undergo company-provided training suggests an employment relationship since the company is directing the methods by which work is accomplished.
- Degree of business integration. Workers whose services are integrated into business operations or significantly affect business success are likely to be considered employees.
- Extent of personal services. Companies that insist on a particular person performing the work assert a degree of control that suggests an employment relationship. In contrast, independent contractors typically are free to assign work to anyone.
- Control of assistants. If a company hires, supervises, and pays a worker's assistants, this control indicates a possible employment relationship. If the worker retains control over hiring, supervising, and paying helpers, this arrangement suggests an independent contractor relationship.
- Continuity of relationship. A continuous relationship between a company and a worker indicates a possible employment relationship. However, an independent contractor arrangement can involve an ongoing relationship for multiple, sequential projects.
- Flexibility of schedule. People whose hours or days of work are dictated by a company are apt to qualify as its employees.

- Demands for full-time work. Full-time work gives a company control over most of a person's time, which supports a finding of an employment relationship.
- Need for on-site services. Requiring someone to work on company premises—particularly if the work can be performed elsewhere—indicates a possible employment relationship.
- Sequence of work. If a company requires work to be performed in specific order or sequence, this control suggests an employment relationship.
- Requirements for reports. If a worker regularly must provide written or oral reports on the status of a project, this arrangement indicates a possible employment relationship.
- Method of payment. Hourly, weekly, or monthly pay schedules are characteristic of employment relationships, unless the payments simply are a convenient way of distributing a lump-sum fee. Payment on commission or project completion is more characteristic of independent contractor relationships.
- Payment of business or travel expenses. Independent contractors typically bear the cost of travel or business expenses, and most contractors set their fees high enough to cover these costs. Direct reimbursement of travel and other business costs by a company suggests an employment relationship.
- Provision of tools and materials. Workers who perform most of their work using company-provided equipment, tools, and materials are more likely to be considered employees. Work largely done using independently obtained supplies or tools supports an independent contractor finding.
- Investment in facilities. Independent contractors typically invest in and maintain their own work facilities. In contrast, most employees rely on their employer to provide work facilities.
- Realization of profit or loss. Workers who receive predetermined earnings and have little chance to realize significant profit or loss through their work generally are employees.
- Work for multiple companies. People who simultaneously provide services for several unrelated companies are likely to qualify as independent contractors.
- Availability to public. If a worker regularly makes services available to the general public, this supports an independent contractor determination.
- Control over discharge. A company's unilateral right to discharge a worker suggests an employment relationship. In contrast, a company's ability to terminate independent contractor relationships generally depends on contract terms.
- Right of termination. Most employees unilaterally can terminate their work for a company without liability. Independent contractors cannot terminate services without liability, except as allowed under their contracts.

Note: You are required to provide IRS Form 1099-MISC for payments of \$600 or more for services rendered for your business to people not treated as your employee such as subcontractors.

Once you have determined that you have one or more employees, there are many federal and state rules and regulations that you must follow in order to properly handle payroll. While there are a few special agricultural employer rules, agricultural employers must comply with an array of rules and regulations. Keep in mind also that it is possible for a farmer to have both agricultural employees and non-agricultural employees. For example, employees that work in a retail farm stand and sell the produce grown by the farmer are considered non-agricultural employees. Make sure to review your payroll filing requirements with your tax accountant.

Useful Publications

- IRS Publication 225 – Farmers Tax Guide
- IRS Publication 51 – Circular A – Agricultural Employer's Tax Guide
- IRS Publication – Circular E – Employers Tax Guide
- IRS Publication 17 – Your Federal Income Tax
- IRS Publication 583 – Starting a Business and Keeping Records
- Circular CT - Connecticut Employer's Tax Guide

Basic Steps to Become an Employer (may be others given certain situations)

1. Apply for a Federal Employer Identification Number (EIN) with the Internal Revenue Service. You may already have an EIN number if a partnership, LLC or corporation. Check with your accountant.
2. Register with the Connecticut Department of Revenue Services using REG -1 for the withholding of taxes from employees. If already registered with DRS for other taxes, file again using REG -1 for withholding as an additional tax.
3. You must verify that each new employee is legally eligible to work in the United States. Give them an I-9 to complete. These forms are maintained in your files.
4. Give each employee Form W-4 and CT-W-4 to fill out. These forms tell you as the employer how much to withhold for federal and state income tax. Other forms may be needed to document such items as other deductions from wages, etc.
5. Determine if you are subject to unemployment tax. Special rules apply for agricultural employers. Unemployment tax is not withheld from the employee but paid in full by the employer. The Connecticut Department of Labor requires all businesses employing workers to obtain a state unemployment tax number and to register with the Department's Employment Security Division. Employers should also get a copy of the Employer's Guide to Unemployment Compensation. Employers must pay Connecticut Unemployment Tax in accordance with that guide.
6. Set up a payroll system to calculate paychecks and withhold proper amounts for social security tax, federal income tax and state income tax as well as other deductions as allowed.
7. Get worker's compensation insurance when necessary. Talk to your insurance agent about the requirements given your situation.
8. Adopt workplace safety measures when necessary and post required notices.
9. Set up personnel files to keep required documents such as form I-9, W-4, CT-W-4 and W-2 as well as job descriptions, job applications and related documents. Files should also contain: the employee occupation, the total daily and total weekly hours worked, showing the beginning and ending time of each work period, the total hourly, daily, or weekly basic wage, the overtime wage as a separate item from the basic wage, additions to, or deductions from, wages each pay period, total wages paid each pay period, working papers/ statements of age for each employee under the age of 18, and other records as stipulated in section 31-60-1 through 31-60-16 of the Regulations of Connecticut State Agencies. See U.S. Department of Labor publication Title 29, Part 516 of the Code of Regulations for additional information.

10. If you have any employee benefits such as health insurance or a retirement plan establish sign up procedures.
11. Consider compiling an employee handbook.
12. File all required forms with the IRS and DRS and pay all taxes when due. You are required to give each employee a W-2 annually. Post all materials as required by the Department of Labor.

State Labor Department Registration

Summary of Employment Taxes for Agricultural Employer Only (review appropriate materials for exceptions, subject to change)

Tax	Employer Cost	Reporting	Reference
Social Security* (employer tax is paid with employee withheld taxes)	7.65% on the first \$106,800 (2010) of each employee's wages 1.45% on all wages above. Same amount withheld from employee	Form 943	IRS Circular A (Publication 51)
Federal Withholding	None, withheld from employee's paycheck	Form 943	IRS Circular A (Publication 51)
Federal Unemployment**	Entire amount, depends on experience rate	Form 940 or 940 EZ	IRS Circular A (Publication 51)
Connecticut Withholding	None, withheld from employee's paycheck	Form CT-941, quarterly, with true-up	Connecticut Circular CT
Connecticut Unemployment	Entire Amount	Form UC-2 Form UC-5A	CT Employers Guide to Unemployment Compensation

*Social Security and Medicare

Generally, you must withhold social security and Medicare taxes on all cash wage payments that you make to your employees.

All cash wages that you pay to an employee during the year for farmwork are subject to social security and Medicare taxes if either of the two tests below is met.

- You pay cash wages to an employee of \$150 or more in a year for farmwork (count all cash wages paid on a time, piecework or other basis). The \$150 test applies separately to each farmworker that you employ. If you employ a family of workers, each member is treated separately. Do not count wages paid by other employers.
- The total that you pay for farmwork (cash and non-cash) to all your employees is \$2,500 or more during the year.

Exceptions. Annual cash wages of less than \$150 you pay to a seasonal farmworker are not subject to social security and Medicare taxes, even if you pay \$2,500 or more to all your farmworkers. However these wages count toward the \$2,500 test for determining whether other farmworkers' wages are subject to social security and Medicare taxes.

A seasonal farmworker is a worker who:

- Is employed in agriculture as a hand-harvest laborer,
- Is paid piece rates in an operation that is usually paid on a piece-rate basis in the region of employment,
- Commutes daily from his or her permanent home to the farm, and
- Had been employed in agriculture less than 13 weeks in the preceding calendar year.

Wages are subject to federal income tax withholding if the wages are subject to social security and Medicare taxes. Payments for the services of your child under age 18, who works for you in your trade or business, including a farm, are not subject to social security and Medicare taxes but count for the \$150 test and the \$2,500 test.

Note: Payments for the services of your child or spouse are subject to federal income tax withholding as well as social security, Medicare, and Federal Unemployment Tax Act taxes if he or she works for any of the following entities:

1. A corporation, even if controlled by you
2. A partnership, even if you are a partner. (This does not apply to wages paid to your child if each partner is a parent of the child.)
3. An estate or trust, even if it is the estate of a deceased parent.

Many special rules apply based upon circumstances. Consult appropriate materials when necessary.

**** Federal Unemployment Tax Act (FUTA)**

Farmworkers

- Paid cash wages of \$20,000 or more to farm workers in any calendar quarter this year (2010) or last year (2009), or
- Employed 10 or more farm workers during at least some part of a day (whether or not at the same time) during any 20 or more different weeks this year (2010) or last year (2009).

Regarding non farmworkers, other rules regarding FUTA requirements apply.

Employer is exempt from paying unemployment tax on services performed by the employer's parents or spouse or by the employer's children under age 21. Certain qualified non profit organizations are not subject to the FUTA. Aliens admitted to the US to perform agricultural services are considered employees. There are special rules if you are a successor to a business.

Discontinuance of Business

Employers who discontinue business are required to notify the Administrator in writing, giving employer number, date of discontinuance, trade name and address of successor, if any. Please include a telephone number.

Basic Information about Connecticut

This information should only be considered a guide and not a substitute for specific statutes and regulations. Payroll is very complex. Please contact the Wage and Workplace Standards Division at (860) 263-6790 or www.ctdol.state.ct.us for further assistance.

Note: Most employers are subject to coverage under both the Federal Fair Labor Standards Act and Connecticut's minimum wage laws (Title 31 Chapter 558 Part I and II of the Connecticut General Statutes). The employer must comply with the laws that provide the higher standard for employees.

An employer should be aware of all requirements including Connecticut's minimum wage and Connecticut's overtime rules. There are some specific exceptions to overtime pay. For example: agricultural employees. Review other materials for other exceptions and specific rules.

Salary vs. Hourly Wages (Non-agricultural employees)

There are several important tests that a job must pass to be overtime exempt:

- The employee must be able to use his or her independent judgment in performing the work. Work requiring advanced knowledge, defined as work which is predominantly intellectual in character, such as engineering or computer networking generally satisfies this requirement.
- Duties must be truly supervisory, for example, hiring and firing, setting policy, scheduling workers, making company investment decisions or reviewing performance of other employees.
- Salary must be fixed and not reduced by such things as lack of work or partial days off (employee not held to fixed hours)
- Professional qualifications, such as advanced degrees or licenses are additional factors leading to classifying an employee overtime exempt, so long as the above criteria are met. In summary, every case is judged individually and, if there is a doubt, the employee is entitled to overtime.

Note: There may be other tests to determine Salary vs Hourly Wages.

Federal Child Labor Laws in Farm Jobs

The Wage and Hour Division of the U.S. Labor Department's Employment Standards Administration enforces the federal child labor laws.

The Fair Labor Standards Act of 1938 (FLSA) as amended, sets standards for child labor in agriculture. These standards differ from those for nonfarm jobs. The FLSA covers employees whose work involves production of agricultural goods, which will leave the state directly or indirectly and become a part of interstate commerce.

What if state child labor standards differ from federal standards?

Many states have laws setting standards for child labor in agriculture. When both state and federal child labor laws apply, the law setting the most stringent standard must be observed. Connecticut requires minors to be sixteen years old with exemptions and restrictions described in the following checklist:

CT Department of Labor's "Checklist for the Employment of Minors in CT"

www.ctdol.state.ct.us/wgwkstnd/minors/wgminors.htm

- Employers' Checklist for Employment of Minors
- Questions and Answers Regarding Minimum Wage for Minors
- Checklist for Minors Applying for Statement of Age/Working Papers
- Records to be Retained by Employers
- Supervisor's Checklist for Orienting New Employees
- Exemptions from Child Labor Laws
- Prohibited Occupations and Places of Employment for all minors under the age of 18 years
- Prohibited Places of Employment for 14 & 15 Year-olds
- Permitted Occupations for 14 & 15 Year-olds
- Time & Hour Restrictions for 16 & 17 Year-old Minors (by industry)
- Other Agencies to Contact for Additional Information

Migrant Labor

There are many acts that the Wage and Hour Division administers and enforces to help protect different types of agricultural workers.

The Migrant and Seasonal Agricultural Protection Act (MSPA) –

Protects migrant and seasonal agricultural workers by establishing employment standards related to wages, housing, transportation, disclosures, and record-keeping. MSPA also requires farm labor contractors to register with the U.S. Department of Labor (DOL) and obtain a certificate of registration. A farm labor contractor must be specifically authorized to provide housing or transportation to migrant or seasonal workers prior to providing the housing and transportation. Persons employed by farm labor contractors to perform farm labor contracting activities also must register with the DOL.

The Field Sanitation Provisions of the Occupational Safety and Health Act (OSHAct)

Was enacted to assure safe and healthful working conditions for working men and women. The Occupational Safety and Health Administration issued regulations establishing minimum standards for field sanitation in covered agricultural settings. These standards required covered employers to provide toilets, portable water, hand-washing facilities, and information regarding good hygiene practices.

The H-2A Visa program –

Establishes standards related to hiring employees, wages, housing, transportation, and record-keeping for employers of temporary, non-immigrant agricultural workers. The employer must file an application with the U.S. Department of Labor's Employment and Training Administration, stating, among other things, that there are not sufficient workers who are able, willing, qualified, and available, and that the employment of aliens will not adversely affect the wages and working conditions of similarly employed U.S. workers. Any employer using H-2A workers must have initially attempted to find U.S. workers to fill these jobs. H-2A workers and U.S. workers in corresponding employment must be paid special rates of pay that vary by locality, provided housing and transportation from housing to the job site if their employment requires them to be away from their residence overnight, and guaranteed employment for at least $\frac{3}{4}$ of the work period specified in the contract.



Insurance

Introduction

Farms encounter and create risks every day simply by operating their businesses. If you are currently in business or deciding to start an agricultural business, insurance should be part of your risk management strategy. Farm businesses can take action to avoid, lower, accept or transfer the risk to a third party such as an insurance company. All businesses generally elect to transfer some of the risk to an insurance company but keep in mind the greater the risk, the higher the cost of the insurance.

At some levels, the cost of insurance may be considered a higher risk than the protection provided by the coverage, in which case the producer accepts the risk. That is when a business may seek to avoid the risk by not conducting some activities at all on the farm or maybe reducing the risk by incorporating appropriate management strategies.

When looking at insurance options, ask the following questions:

- Could the farm continue if a disaster hit the farm such as a fire?
- Could the farm withstand a liability claim?
- Could the farm continue if a crop failed?
- Could the farm continue if a key person in the business died or became disabled?
- If an employee is hurt on the farm, do I have proper worker's compensation insurance?

Always be sure to talk with your insurance agent about your needs. Also make sure that your agent always knows what you are doing and if you are making any changes in your operation. The last thing you want to hear your agent say is "That is not covered" when you have a claim. Keep in mind that not all insurance agents sell all the kinds of insurance you may need. Your agent can advise you on the types and proper levels of insurance you need to insure your particular business as long as they have all of the facts. Buying business insurance is among the best ways to prepare for the unexpected.

Types of Insurance

There are a variety of insurance options available to agricultural business owners. Some of the more popular types will be discussed in this chapter, including: 1) crop insurance; 2) business liability insurance; 3) property insurance; 4) business life insurance; 5) health insurance; 6) worker's compensation insurance; and 7) disability insurance.

1. Crop Insurance

Connecticut Crop Insurance Facts (taken from 2009 RMA fact sheet)

The USDA Risk Management Agency (RMA) offers a federally subsidized crop insurance program through private insurance companies. Crop insurance covers disasters such as drought, hail, frost, hurricanes, excessive moisture, fire, insects & plant disease and wildlife damage. This fact sheet only highlights certain features about various crop insurance programs and is not intended to be all-inclusive. You may contact your local crop insurance agent, or visit our website at www.rma.usda.gov for more specific information about crop insurance in your area.

Crops covered in Connecticut include nursery crops, apples, peaches, corn, fresh market sweet corn, potatoes and tobacco. Sales closing dates are in place as the deadline to purchase an insurance plan for a particular crop. An application must be submitted to a crop insurance company representative by this date or else the insurance policy will not attach and your crop losses will not be covered.

What Programs are Insurable?

Sales Closing Date	Crop
May 1	Nursery
November 20	Apples Peaches
January 31	Adjusted Gross Revenue
March 15	Adj. Gross Revenue-Lite Corn Fresh Market Sweet Corn Potatoes Tobacco
Continuous	Livestock Gross Margin (dairy)

What if I have a crop that is not listed as insurable?

You may still be eligible to request crop insurance through a “written agreement.” The written agreement is a document designed to provide crop insurance in counties without an established program for the crop or an organic crop. See your crop insurance agent regarding documentation requirements. Note that written agreements are not issued for pilot crops or catastrophic (CAT) policies.

Are other crops being considered?

Yes. The RMA is consistently developing new programs. Our agency is working with contractors, universities and researchers to identify local farmer needs and develop new crop programs. Connecticut currently has pilot crop program for Adjusted Gross Revenue. Crops usually stay in a pilot program until the insurance plan is deemed fundamentally sound. Check with your insurance agent to see if a pilot crop is available in your county.

How much does it cost?

A \$300 administrative fee, per crop per county, will apply for a catastrophic (CAT) insurance plan. The Federal government pays the premium on CAT coverage. Catastrophic coverage pays 55 percent of the established price of the commodity on crop losses in excess of 50 percent. Limited resource farmers may have this fee waived. CAT coverage is not available on written agreements or crop revenue coverage. Check with your crop insurance agent to see if you qualify as a limited-resource farmer or for CAT availability.

Are higher coverage levels available?

Yes. The cost for buy-up levels of insurance coverage is a \$30 administrative fee, per crop per county, plus the premium. Simply select the amount of your Actual Production History (APH) yield you wish to insure; from 50 to 75 percent (for some crops in some areas, up to 85 percent).

Are there other types of Insurance Plans?

Yes the agency offers different Insurance Plans.

- Adjusted Gross Revenue is a whole-farm insurance program providing insurance coverage for multiple agricultural commodities under one insurance product using income tax information from your operation. A farm report is created to determine coverage eligibility. Covered farm revenue includes income from most crops and agricultural commodities. A limited amount of income (not to exceed 35%) from livestock, animal products, and aquaculture products raised in a controlled environment may also be covered. Under this plan, you can also cover revenue generated from commodities that are currently uninsurable (such as forage, fruit and vegetable crops).
- Adjusted Gross Revenue Lite is a streamlined whole-farm revenue protection package that can be used as a stand-alone coverage or in addition to other individual crop insurance policies (except AGR). It allows you to insure a portion of the revenue generated from crops, animals (such as chickens, dairy cows, hogs and sheep) and animal products (such as eggs, milk, meat, and wool). Under this plan, you can also cover revenue generated from commodities that are currently uninsurable (such as forage, fruit and vegetable crops).
- Crop Revenue Coverage provides revenue protection based on price and yield expectations by paying for losses below the guarantee at the higher of an early-season price or harvest price. Corn farmers can receive coverage under CRC.
- Livestock Gross Margin Dairy provides protection against unexpected declines in gross margin (market value of milk minus feed costs). It uses adjusted futures prices to determine the expected gross margin and the actual gross margin. Adjustments to futures prices are state-and-month specific basis levels.

Can I contact someone for more information?

Contact the Raleigh Regional Office that services Connecticut. Crop specialists are available to answer specific questions. Call or write:

USDA/Risk Management Agency
Raleigh Regional Office
4407 Bland Road, Suite 160
Raleigh, North Carolina, 27609

(919) 875-4880

Visit the RMA website for the latest crop insurance and agricultural risk management information. Visit our website at www.rma.usda.gov

Please refer to the appendix for RMA, USDA Crop Insurance Fact sheets for specific crops. Also visit the Connecticut Farm Risk Management and Crop Insurance website, www.ctfarmrisk.uconn.edu for additional information on Crop Insurance and other Risk Management topics.

Other Types of Insurance

2. Business Liability Insurance

Farmers face the risk of liability from several angles. A farmer is liable if their inaction or action results in personal injury to another person or another's property. Someone who owns real estate and personal property and/or who conducts business activities assumes responsibility for any liabilities that occur as a result of any use of this property or activity.

Many business owners buy general liability or umbrella liability insurance to cover claims of negligence. These help protect against payments as the result of bodily injury or property damage, medical expenses, the cost of defending lawsuits, and settlement bonds or judgments required during an appeal procedure.

Liability is usually the highest potential monetary risk for business dealing directly with the public. Consider proper coverage. The assets of the business and its officers are at risk for any judgment or settlement that exceeds the policy limit.

In any small business, the owner/officer(s) should be listed on the policy as additional insured(s). Most lawsuits will name the owner/officer(s) as additional defendants. Insurance carriers usually do this at no additional cost.

Regarding product liability, if you are selling food products or raw food from the farm, at a farmer's market, or retail store, you will need to have product liability coverage. Make sure your agent knows and understands what you are selling to insure that you have adequate coverage and are following all state and federal laws.

3. Property Insurance

Property insurance covers losses due to fire and other perils such as windstorms, theft, and water damage. Perils covered or exclusions may differ between carriers and policies. It is wise to compare and shop based on price, service, and coverage provided by policy. The cheapest may not be the best when you need to file a claim. It is important that you decide what to insure and for how much. Ask yourself what would you have to replace if your farm or business was destroyed?

4. Business Life Insurance

Life insurance, which is only available for living individuals, can be a useful tool to provide necessary money for transferring the farm, covering tax or debt obligations or paying off heirs, both farm and nonfarm.

Family businesses often use life insurance as part of their continuation, estate and/or succession plan. It is in addition to a written business continuation plan that outlines how the business will maintain operations if a key person dies, has a disability, or retires from the business. Be aware that lenders or investors may require you to reduce the loss of investment in the event of the death of a manager or employee whose contribution to the success of the business is essential.

In order to understand your need for this type of insurance and to select an adequate plan, you need to consider term vs. permanent life insurance in addition to why you need the insurance, for how long and what you can afford. Some other important questions include the following. What are you trying to accomplish with life insurance? Could the same thing be accomplished by other means? Will my family be burdened financially by my death?

5. Health Insurance

For farmers who buy individual coverage without the advantage of a large group, health insurance is one of the biggest costs for farm operators. Health insurance coverage is needed for accidents or injuries that occur on the farm as well as illness. In some situations, the spouse of the owner may work off the farm to not only supplement income but also to also get health insurance paid or partially paid by the employed spouse's company. Membership in organizations can provide access to group insurance rates.

6. Worker's Compensation Insurance

Worker's compensation insurance relates to labor and employer responsibilities and is, by law, required in Connecticut. This type of insurance pays for employees' medical expenses and missed wages if injured or become ill while working. The amount of insurance employers must carry, rate of payment, and the employees that must be covered should be discussed with your insurance agent.

7. Disability Insurance

Disability insurance is designed to cover you and/or your employees. It provides income to you or your employee if you or they cannot work due to a covered event, including illness or injury. This insurance, if purchased, would be in addition to workers compensation and is not mandatory.

If a key person is injured it can impact the farm in two ways – the farm loses the management skills and work of the injured person and the financial burden of caring for the injured person along with the cost of having to replace for a period of time the injured person. To be eligible, workers must earn credits based on their earnings. The wages necessary to earn credits vary year to year and the number of work credits required is a function of the workers age.

Business owners should always make sure that they keep disability coverage with their social security tax. Social security provides disability for workers who have worked and earned self-employment income and paid self employment taxes. Furthermore, make sure that you qualify for retirement benefits as well as disability benefits through social security. Remember, all self employed taxpayers have the option of paying the minimum social security tax even if low income eliminates the obligation to pay social security tax. Paying the minimum does increase the individual's ability to collect social security at retirement and more importantly also qualifies the individual and dependants as eligible for social security benefits in case of disability.



Applying for a Loan

Introduction

Loans can help farmers with a variety of needed support areas and to keep a farm or agricultural business running. The cost of borrowed capital is a significant part of most growers' budgets. Producers should shop for loans just as they look for the best price for fertilizer, seed, and all other production inputs. It is especially important to compare loans carefully.

Nothing is more important when working with a lender than being prepared. One of the worst things that you can do is walk into a banker's office and ask, "How much can I borrow?" This shows the banker that you do not have a budget or any clear understanding of your cash needs. Your overall business plan along with several other documents can serve as explanation of your borrowing needs and repayment ability.

General Tips for Obtaining a Business Loan

- Provide your lender with the proper information needed to evaluate your request.
- Clearly show what the loan will be used for, that it is necessary and that it is the right amount.
- Information must be presented in a cohesive business plan. The lender must be convinced that your plan will be successful and that you have the ability and the financial strength necessary to pay the loan back.
- Banks have different underwriting requirements and knowledge of types of business. Find out what the bank requires to document a loan and if they have any experience with agricultural businesses.
- Be patient: You want the lender to view you as someone with a vision and the ability to achieve it.

Capital Sources

Not having enough capital is the cause of many small agricultural business failures. Adequate capital is needed to start up the business, operate through hard times, and provide a good chance to become a profitable enterprise. There are several places to look for available capital.

- **Personal assets** including your savings, stocks, bonds, cash value of life insurance and equity in real property.
- **Partner's assets**
- **Loans and/or gifts from family and friends**
- **Bank loans**
- **Grants**
- **Investors** generally get either a part ownership of the business or a part of the profits.

The Five C's of Credit

Lenders evaluate a loan application based on several factors. As the borrower, you provide part of the information, but the potential lenders will also use their own credit files and outside sources. By understanding each of the five C's of credit from the lender's viewpoint, you can anticipate your strong and weak points as they may appear to a potential lender.

- **Character** – Your credit history and business reputation. They are lending the money to you and depending on you to make the payments. There is no way you can hide any payment problems in your past. If you have corrected any credit problems and paid the debts as agreed, you should make sure that your credit report reflects that. You may want to check your credit report before you apply for a loan.
- **Capacity** – Your sources and ability to repay the loan out of business cash flow. The lender wants to make sure that you have or will have the cash flow to make the loan payments as scheduled.

- **Capital** – You must invest in your own proposal before you can expect anyone else to back it. Your financial commitment is the business' starting net worth. Generally, you may need to provide between 10-25% of the start-up capital depending on the proposal.
- **Collateral** – Most lenders will require collateral to cover the loan in the event you do not or cannot repay the loan in full. The lender in lieu of payment can take your collateral such as a home or piece of equipment. There must be a significant part of net worth that has market value if the business fails. Sometimes a cosigner with sufficient assets can fulfill part or the entire collateral requirement.
- **Covenants** – These include loan terms such as payment schedule and interest rate. Common loan covenants and conditions include minimum cash balances, coverage and current ratios. In almost all cases, a personal guarantee from the business owner is required as a condition for a business loan. That means the owner's personal assets are at risk.

Documents and Information You May Need to Provide

There are several documents that you should be prepared to provide when applying for a loan. Your ability to deliver a well organized and well planned presentation of your financial needs will play a big part in how much capital you will be able to raise.

1. **Resume**
Compile a resume describing your background; include experience working on other farms and your education.
2. **Income Tax Returns**
Provide copies of your income tax returns for at least the last three years.
3. **Financial Statements**
Prepare basic financial statements for each of the last three years. These include a:
 - Balance sheet - lists all of your assets and liabilities (money you already owe). Be sure to include cooperative retains and money that is owed to you in your list of assets.
 - Profit and Loss Statement – a document that lists your business income and expenses over a period of time, usually for your tax year.
 - Cash Flow – a budget that shows your sources and use of funds on a monthly basis for the past year at least. Also prepare a cash flow budget for the coming year to clearly illustrate your expected cash needs.
4. **Titles to Real Estate and Personal Property**
Titles are especially important if these assets are securities for the loan.
5. **Serial Numbers and Identification of New Equipment Purchases**
6. **Terms and Conditions of Outstanding Loans**
Provide a list of terms and conditions of any outstanding loans including whom the loan is with and any account numbers.
7. **Collectible Notes and Accounts Receivable**
List all collectible notes and accounts receivable including dates, entities involved, and terms of the agreements.

8. **Third Party Option on Yields**

You may also be asked to provide a third party opinion on the yield and value of growing crops if they are listed as assets.

9. **Map of Fields and Cropping Plans & Lease Agreements**

Any crop loan application must include a map of the fields and cropping plans for the farm operation. Lease agreements show the ownership status of the land and what the cash rent or crop-share agreement is.

10. **Insurance Policies**

Insurance policies for equipment, liabilities, and crops may be a requirement for the loan. Be prepared to provide complete insurance information including carrier, policy number and amount of coverage.

11. **Sales Contracts**

Include any sales contracts you might have and co-op membership if applicable.

12. **Business Plan**

A business plan is critical for the bank to evaluate your proposal. Be sure to include your marketing plan, long-range changes, pattern of ownership, planned purchases and sales of assets.

A marketing plan, which is essential to your loan package, shows that you have done your homework and understand the industry situation for the crops or livestock that you are producing. A detailed marketing plan is particularly important for a new or unusual commodity. Be fairly conservative in your planning, so that there is a margin for unforeseen setbacks.

Questions to Ask Lenders

- Appraisal fees – if real estate is a security.
- Application fee or commitment fee – ask if fee is returned if loan is made, or not returned if loan is not made.
- Closing costs, inspection fees, or charge for documents that may be recorded – most out of pocket costs for loan are paid by borrower.
- Can fees be paid as part of the loan or must they be paid in cash up front?
- Compensating balances – ask if maintaining a bank account can reduce the cost of the loan.

Questions Lenders May Ask

- Are you a cosigner, endorser or guarantor for debts incurred by others?
- Do you owe income tax on income received or assets already sold? This should appear on balance sheets and income statements.
- Are you involved in any pending lawsuits?
- Are you involved in any contracts? What are the liabilities if you fall short of your contract? Are you guaranteed a home for all products? Do you have an established market?
- Is there potential liability in connection with violation of local state or federal regulations? Have there been any pollution problems on the property?



Grants and Other Opportunities for Assistance

Introduction

Several resources have been established to help farmers improve their financial success. Grant programs are especially important sources of monetary aid for many farm businesses. There are a variety of federal, state, local, and private agency grant opportunities available to Connecticut farmers. This chapter will discuss some popular grant and funding programs available to farmers.

Applying for a grant can be an intricate and time consuming process so it is important to develop a plan before getting started. A few guidelines and points to consider are as follows:

- Ensure a good fit – apply to the right funding agency.
- Be aware of the type of grant you are applying for - some are an outright payment to the recipient with no participant match while others require some portion to be matched by the participant.
- Follow all given instructions - make sure your application is complete with no grammatical or spelling errors.
- Do not assume the funder knows as much about the project as you.
- Develop clear and concise goals and objectives and state them clearly.
- Emphasize the results, work towards a measurable result.
- All grants have conditions and rules to follow.

Farm Reinvestment Grant

The Farm Reinvestment Grant Program (FRG), which is part of the Agriculture Viability Grants Program, insures the viability of agriculture in Connecticut. By providing money for capital enhancement to farms, it is the department's hope to help preserve Connecticut's agricultural base and improve farm production.

Competitive matching grants up to \$40,000 will be awarded on the basis of the quality of the applicant's business plan that is a part of their application. The farmer applicant must match or exceed the amount of the grant being requested. These funds must be used for projects that are defined as capital fixed assets and have a life expectancy of 10 years or more. The funds may be used for the expansion of existing agricultural facilities, or diversification-expansion into new production areas and site improvements related to such expansion or diversification.

Farm Transition Grant

The Farm Transition Grant (FTG), which is part of the Agriculture Viability Grants Program, is a competitive matching grant program. The purpose of the program is to strengthen the economic viability of Connecticut farmers and agricultural cooperatives. Producers and agriculture cooperatives may apply for this grant and may receive up to \$49,999 matching.

A producer and an agricultural cooperative match must be at least 50% and may not include in-kind services. This is a rebate grant for the production farmer and for agricultural cooperatives. This means that the grantee must complete the project before they will be reimbursed the grant dollars.

Farm Viability Grant Program for Municipalities

The Farm Viability Grant Program for Municipalities & 501 c(3) Agricultural Non Profits (FVG), which is part of the Agriculture Viability Grants Program, is a competitive matching grant program that may only be used by municipalities, regional planning agencies, association of municipalities, and 501 c(3) agricultural non profits. The maximum FVG grant award is \$49,999. A 50% match is required and the match can be in "in-kind" services or funding from other sources. A 40% match is required for 501 c(3) agricultural non profits and the match can be in "in-kind" services or funding from other sources.

These grants may be used for capital projects, agriculture friendly land use regulations, planning projects or for initiatives to support agriculture. Municipalities and 501 c(3) agricultural non profits may request a 50% "up front" payment prior to initiation of the project.

For information call Ron Olsen, 1-860-713-2503 or ronald.olsen@ct.gov

Purchase of Development Rights Program

The Connecticut Department of Agriculture also works with farmers and others for Farmland Preservation through the Purchase of Development Rights Program, often in conjunction with private and federal funding. Contact Jay Dippel 860-713-2511.

United States Department of Agriculture Grant Programs

Sustainable Agriculture Research and Education (SARE) Farmer Grants

These grants are for commercial producers who have an innovative idea that will likely contribute to sustainable farm practices. Funds can be used for field trials, prototypes, market development, demonstrations, and outreach. Projects must have a technical advisor with expertise on the topic. The application deadline is in early winter for awards the following March. Award maximum: \$15,000.

The eligible Northeast region is made up of Connecticut, Delaware, Massachusetts, Maryland, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, West Virginia, and Washington, D.C.

SARE also offers other grants such as Partnership, Sustainable Community, Professional Development and Agro ecosystems Research Grants. Visit <http://nsare.org> for contact information, materials and information on all grants available through SARE.

USDA Rural Development Program

www.rurdev.usda.gov

This program provides a number of grants, loans and loan guarantees to businesses and communities on a variety of programs, including energy conservation.

A Value-added Producer Grant Program provides funding for planning activities, feasibility studies, and then working capital expenses for processing and marketing value-added agricultural products.

USDA Rural Development Renewable Energy and Energy Efficiency Program

Program grants up to 25% and loan guarantees up to 50% of the costs to purchase eligible renewable energy systems or to make energy efficiency improvements.

Contact:

Mary Grasso, Windsor Area Director, 1-860-688-7725 serving the counties of Tolland, Middlesex, Hartford, Litchfield, New Haven and Fairfield.

Johan Strandson, Norwich Area Director, at 1-860-859-5218 serving the counties of Windham and New London.

The Farm Service Agency (FSA) administers and manages farm commodity, credit, conservation, disaster, and loan programs as laid out by Congress through a network of federal, state and county offices.

Farm Loans

FSA's loan programs are designed to help family farmers obtain loans and loan guarantees, and conduct business planning. Under a guaranteed loan, a commercial lender makes and services the loan, and FSA guarantees it against loss up to a maximum of 90% in most cases. In certain limited circumstances, a 95% guarantee is available. In many cases, these are beginning farmers who need additional financial and business acumen to qualify for commercial credit. In other cases, they are farmers who have suffered financial setbacks from natural disasters, or who need additional resources with which to establish and maintain profitable farming operations.

Loan options include farm ownership loans with a maximum indebtedness of \$300,000 (maximum is \$1,094,000 for guaranteed loans adjusted annually for inflation), farm operating loans with a maximum of \$300,000, a down payment program, rural youth loans with a \$5,000 maximum, and emergency loans.

Noninsured Crop Disaster Assistance Program (NAP), FSA

FSA's NAP provides financial assistance to producers of noninsurable crops when low yields, loss of inventory or prevented planting occur due to natural disasters

Visit www.fsa.usda.gov or contact the CT State FSA at 860-871-2944 for the county office nearest your farm.

USDA Natural Resource Conservation Service (NRCS)

www.ct.nrcs.usda.gov

NRCS administers financial and technical assistance programs to help private landowners conserve and sustain their natural resources. Program benefits include sustaining and improving agricultural productivity, cleaner, safer, and more dependable water supplies, reduced damages caused by floods and other natural disasters, and enhanced natural resource bases that support continuing economic development, recreation, and other purposes.

Environmental Quality Incentives Program (EQIP) in Connecticut provides cost share and incentive payments to implement conservation practices on eligible agricultural land. It is a voluntary program that promotes environmental quality and agricultural production as compatible goals. EQIP sign-ups are conducted at USDA Service Centers in Connecticut. Farmers can apply for cost-sharing for many types of conservation practices to receive financial and technical help with structural and management practices on agricultural land.

Agricultural Management Assistance (AMA) provides cost share assistance to agricultural producers to voluntarily address issues such as water management, water quality, and erosion control by incorporating conservation into their farming operations. Producers may construct or improve water management structures or irrigation structures; plant trees for windbreaks or to improve water quality; and mitigate risk through production diversification or resource conservation practices, including soil erosion control, integrated pest management, or transition to organic farming.

Farm and Ranchland Protection Program (FRPP) is a voluntary program whose purpose is to protect agricultural lands by limiting non-agricultural uses. NRCS partners with approved state, local, and non-profit entities who arrange for the purchase development of rights through conservation easements on private lands. The entity holds and manages these conservation easements in perpetuity.

Wildlife Habitat Incentives Program (WHIP) is a voluntary program for conservation-minded landowners who want to develop and improve wildlife habitat on agricultural land, nonindustrial private forest land, and Indian Land. The Food, Conservation, and Energy Act of 2008 reauthorized WHIP as a voluntary approach to improving wildlife habitat in our Nation. NRCS administers WHIP to provide both technical assistance and up to 75% cost share assistance to establish and improve fish and wildlife habitat. WHIP cost share agreements between NRCS and the participant generally last from one year after the last conservation practice is implemented but not more than 10 years from the date the agreement is signed.

Visit www.ct.nrcs.usda.gov or Nancy Ferlow, State Resource Conservationist, at 860-871-4049.

Grants.gov

There are many other grant opportunities available. To find and apply for federal government grants visit www.grants.gov.

Funding for Energy Conservation

Clean Energy Fund www.ctcleanenergy.com CT Innovations 1-800-563-0015

Projects using clean, renewable energy (solar, wind, etc.) may be eligible for a portion of the installation costs, using the CT Clean Energy Fund from the surcharge on electric bills each month.

CT Energy Efficiency Fund (CEEF) CL&P, Fred Wajcs 860-665-3286

Energy Saving Solutions for Farms (includes vacuum pumps, refrigeration, lighting, transfer pumps). The CEEF will cover up to 100% of the increased cost of new energy-efficient equipment and up to 50% of the cost of energy-saving modifications.



Useful Websites and Publications

There are a variety of organizations that can assist you in connecting with people and activities to enhance your ability to run a farm business.

Websites

- **American Farmland Trust**
- **City Seed**
- **Connecticut Christmas Tree Growers' Association**
- **Connecticut Cooperative Extension System**
- **Connecticut Economic Resource Center (CERC)**
- **Connecticut Farm Bureau**
- **Connecticut Farmland Trust**
- **Connecticut Farm Risk Management and Crop Insurance**
- **Connecticut Horse Council**
- **Connecticut NOFA**
- **Connecticut Sheep Breeders Association**

www.farmland.org

www.cityseed.org

www.ctchristmastrees.org

www.extension.uconn.edu

www.cerc.com

www.cfba.org

www.CTfarmland.org

www.ctfarmrisk.uconn.edu

www.cthorsecouncil.org

www.ctnofa.org

www.ctsheep.org

- **Connecticut Wine Trail Association** www.ctwine.com
- **Connecticut Women's Agricultural Network** www.ctwagn.com
- **Government loan programs:** www.govloans.gov
- **Internal Revenue Service:** www.irs.gov
- **New England Alpaca Owner and Breeder Association** www.neaoba.org
- **New England Farm Ways** www.rifarmways.org
- **New England Small Farms Institute** www.smallfarm.org
- **Nursery, greenhouse, florists, flowers and plants** www.flowersplantsinct.com
- **Research on all grants available** www.grants.gov
- **State of Connecticut Department of Agriculture** www.ct.gov/DOAG
- **State of Connecticut Agricultural Experiment Station** www.caes.state.ct.us
- **State of Connecticut Department of Revenue Services** www.ct.gov/drs
- **State of Connecticut Department of Labor** www.ctdol.state.ct.us
- **State of Connecticut Department of Consumer Protection** www.ct.gov/dcp
- **State of Connecticut Department of Public Health** www.ct.gov/dph
- **State of Connecticut Department of Environmental Protection** www.ct.gov/dep
- **United States Small Business Administration** www.sba.gov
- **USDA** www.usda.gov
- **USDA, FSA** www.fsa.usda.gov
- **USDA, NRCS** www.ct.nrcs.usda.gov
- **USDA, Risk Management Agency** www.rma.usda.gov
- **USDA, Rural Development** www.rurdev.usda.gov

Publications

- Circular CT - Connecticut employer's Tax www.ct.gov/drs/cwp/view.asp?A=1510&Q=404184
- DRS Publication 2008 (19) Farmers Guide to Sales and Use Taxes, Motor Vehicles Fuel Tax, Estimated Income Tax and Withholding Tax
- IRS Publication 17 – Your Federal Income Tax
- IRS Publication 225 – Farmers Tax Guide www.irs.gov
- IRS Publication 583 – Starting a Business and Keeping Records
- IRS Publication – Circular A – Agricultural Employer's Tax Guide
- *Farmer's Guide to the Processing and Selling of Meat or Poultry in Connecticut*
www.ct.gov/doag/lib/doag/marketing_files/farmers_guide_to_processing_and_selling_meat_and_poultry_in_ct.pdf
- Planning for Agriculture www.ctplanningforagriculture.com
A guide for Connecticut Municipalities



Appendix: RMA, USDA Crop Insurance fact sheets

Nursery Commodity Insurance

Revised April 2009

Insurance

Nursery crop insurance is available in all States to all persons operating nurseries that meet certain criteria. Insurance coverage will apply, by practice (**field-grown or container**), to all of your nursery plants in a county that:

- Are on the Eligible Plant List;
- Are grown in a nursery that receives at least 50 percent of its gross income from the wholesale marketing of nursery plants;
- Meet all the requirements for insurability; and
- Are grown in an appropriate medium.

Nursery containers containing two or more different genera, species, subspecies, varieties, or cultivars cannot be insured. Plants grown for sale as Christmas trees cannot be insured, and plants grown as stock plants or grown solely for harvest of buds, flowers, or greenery cannot be insured. Plants producing edible fruits and nuts can be insured if the plants are available for sale (harvesting the edible fruit or nuts does not affect insurability).

Your nursery must be inspected and approved as acceptable before insurance coverage can begin.

Important Dates

- The insurance period begins June 1 and continues through May 31 of the following year.
- The contract change date is January 31 before the current crop year.
- The sales closing date is May 1 before the current crop year.

if You Suffer Damage or a Loss

Notify your agent within 72 hours (3 days) of your initial discovery of damage and submit a claim for indemnity no later than 60 days after the end of the insurance period.

Insured Causes of Loss

Adverse weather conditions¹
 Failure of irrigation water supply²
 Fire³
 Wildlife

¹Includes wind, hurricane, and freeze. If cold protection is required by the Eligible Plant List, adequate and operational cold protection measures must be in place. ²If due to an insurable cause of loss, such as drought. ³Provided weeds and undergrowth are controlled.

Plant damage or losses in value as a result of the following situations are **not** covered:

Collapse or failure of buildings/structures¹
 Disease or insect infestation²
 Failure of plants to grow to an expected size
 Inadequate power supply³
 Inability to market nursery products⁴

¹Unless caused by an insurable cause of loss. ²Unless effective control measures for the infestation do not exist. ³Unless such inadequacy is a result of an insurable cause of loss. ⁴Due to a stop sales order, quarantine, boycott, phytosanitary restriction on sales, or buyer refusal.

Definitions

Amount of Insurance — The result of multiplying the full value of all insurable plants in each basic unit by the selected coverage level percentage, multiplied by your share.

Amount of Insurance Example

\$100,000	Plant inventory value
x .65	Chosen coverage level percentage
x 1.00	Producer share
\$65,000	Unit amount of insurance

Container-Grown Plants — Nursery plants planted and grown in standard nursery containers either above ground or placed in the ground [directly or when placed in another pot in the ground (pot-in-pot)].

Crop Inventory Valuation Report — A plant inventory list created on the Nursery Inventory Software for assisting in establishing the insurable nursery plant inventory value. The Nursery Inventory Software is available at: <http://www.rma.usda.gov/tools/eplpps>.

Eligible Plant List — A list that includes botanical and common names of insurable plants, winter protection requirements for container-grown material and areas in which they apply, hardiness zone in which field-grown material is insurable, designated hardiness zone for each county, and unit classification for each plant. The list is available at: <http://www.rma.usda.gov/tools/eplpps> and from crop insurance agents.

Field-Grown Plants — Nursery plants planted and grown in the ground without the use of an artificial root containment device.

Liners — Liners are insurable if the containers are equal to or greater than 1 inch in diameter (including trays containing 200 or fewer individual cells), but less than 3 inches in diameter at the widest point of the container or cell interior, have an established root system, and are able to maintain a firm root ball when lifted from the containers.

Nursery — A business enterprise that grows nursery plants and receives at least 50 percent of its gross income from wholesale marketing of such plants.

Stock Plants — Plants used solely for propagation during the insurance period or plants grown only for harvest of buds, flowers, or greenery. Stock plants cannot be insured.

Plant Inventory Value Report

The plant inventory value report is used to declare the value of your insurable plants. A plant inventory value report for each insured practice is required. Two copies of your most recent wholesale catalog or price list must accompany your plant inventory value report. Wholesale catalogs must:

- Be typewritten and legible;
- Show an issue date on the cover page (may be handwritten);
- Contain name, address, and telephone number of nursery;
- Be used for plant sales to customers; and
- List plant names, container sizes, and wholesale prices.

Your plant inventory value report must also be accompanied by a crop inventory valuation report or physical plant inventory and price documentation.

Peak Inventory Endorsement

For increased coverage during certain peak periods when your inventory value may be significantly higher than your annual plant inventory value, you may consider the additional insurance coverage provided by a Peak Inventory Endorsement (not available with the catastrophic coverage level). Contact your crop insurance agent for further details.

Rehabilitation Endorsement

This endorsement is an addition to the basic policy that provides reimbursement for your expenditures on labor and material for pruning and setup (righting, propping, and staking) of field-grown plants that are damaged by an insured cause of loss and have a reasonable expectation of recovery. The Rehabilitation Endorsement is not available with the catastrophic coverage level. Contact your crop insurance agent for further details.

Pilot Nursery Grower's Price Endorsement

The Pilot Nursery Grower's Price Endorsement, available in 19 States, is an addition to the basic policy that insures specific plants at prices higher than those shown on your eligible plant list. You must purchase this at the time you apply for coverage, or on or before the sales closing date. Contact your crop insurance agent for further details.

Coverage Levels and Premium Subsidies

Coverage levels range from 50 to 75 percent of your plant inventory value. Crop insurance premiums are subsidized as shown in the following table. For example, if you selected the 75-percent coverage level, your premium share would be 45 percent of the base premium: the catastrophic coverage level is fixed at 27.5 percent of your plant inventory value. The only cost for the catastrophic coverage level is an administrative fee of \$300.

Item	Percent					
Coverage level	50	55	60	65	70	75
Premium subsidy	67	64	64	59	59	55
Your premium share	33	36	36	41	41	45

Loss Example

\$100,000	Plant inventory value
x .65	Coverage level percentage
\$65,000	Unit amount of insurance

In the event of a loss:

\$100,000	Field market value before loss
- \$50,000	Field market value after loss
\$50,000	Value of loss
- \$35,000	Deductible*
\$15,000	Indemnity

*(1 - coverage level) X inventory = (1 - .65) X \$100,000 = \$35,000

Contact Us

USDA/RMA

Mail Stop 0801

1400 Independence Ave., SW

Washington, D.C. 20250-0801

Web site: <http://www.rma.usda.gov>

E-mail: rmaweb.content.@rma.usda.gov

Agent locator: <http://www3.rma.usda.gov/apps/agents/>

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Visit our online publications/fact sheets page at:
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Adjusted Gross Revenue (AGR)

Revised April 2009

Adjusted Gross Revenue (AGR) crop insurance provides producers with protection against low revenue from natural causes and market fluctuations. The insurance covers income from agricultural commodities, as well as income from animals, animal products, and aquaculture species reared in a controlled environment.

Adjusted Gross Revenue:

- Uses your historical Internal Revenue Insurance (IRS) tax form (Schedule F or equivalent forms) information and an annual farm report as a base;
- Provides insurance for multiple agricultural commodities in one product;
- Establishes revenue as a common denominator for the production of all agricultural commodities.

AGR Timeline

Sales Closing Date: You must buy or cancel your policy on or before January 31.

Beginning of Insurance: All existing policies roll over each year if they are not canceled or changed. The insurance attaches each year on January 1. For new policies, insurance coverage will begin 10 days after a properly completed application is received.

Contract Change Date: You must make any and all changes to your insurance contract on or before August 31.

Insurance Year: Defined as a calendar year in which the sales closing date occurs and includes both calendar-year and fiscal-year filings (corresponding to the policyholder's IRS tax period).

Claims: Claims are settled after taxes are filed for the insurance year.

Availability

AGR insurance is available in: California (selected counties), Connecticut, Delaware, Florida (selected counties), Idaho (selected counties), Maine, Maryland (selected counties), Massachusetts, Michigan (selected counties), New Hampshire, New Jersey, New York (selected counties), Oregon (selected counties), Pennsylvania (selected counties), Rhode Island, Vermont, Virginia (selected counties), and Washington (selected counties).

Eligibility

To meet the eligibility criteria for AGR coverage, you must:

- Be a U.S. citizen or resident;
- File a calendar-year or fiscal-year farm tax return;
- Produce agricultural commodities primarily in pilot counties (may include income from contiguous non-pilot counties);
- Have liability not exceeding \$6.5 million;
- Have had same tax entity for 7 years (filed 5 consecutive years of Schedule F tax forms, plus previous year and insurance year) unless a change in tax entity is reviewed and approved by your insurance provider;
- Purchase traditional Federal crop insurance, if available, when more than 50 percent of your expected income is from insurable commodities (when you purchase both AGR and other crop insurance plans, the AGR premium will be reduced); and
- Earn no more than 35 percent of expected allowable income from animals and animal products.

Insured Causes of Loss

Insurance is provided against revenue loss due to any unavoidable natural occurrences during the current or previous insurance year or due to market fluctuations that cause a revenue loss during the current insurance year. No payment will be made for losses due to negligence, mismanagement, or wrongdoing by the policyholder, the policyholder's family, household members, tenants, employees, or contractors; crop abandonment; bypassing of acreage; or other causes listed in the insurance policy.

AGR Application Information

When completing an AGR application, you must submit:

- A history calculation worksheet, including 5 years of allowable income and expense data from IRS tax returns (Schedule F or equivalent forms);
- An annual farm report for the insurance year listing each commodity to be produced, the expected quantity of the commodity to be produced, and the expected price for the commodity;
- A commodity profile report for the previous 2 years if you are selecting higher coverage levels;
- Beginning inventories, if applicable; and
- An indication of changes that will result in lower income for the insurance year than the historical

average.

Choosing a Revenue Guarantee

AGR liability (protection) is calculated by multiplying the approved, AGR by the coverage level and payment rate percentage you select from the county Special Provisions of Insurance actuarial document (see table below). Coverage levels and payment rate eligibility vary with the number of commodities you produce. You may select only one coverage amount.

Available Protection Amounts

Coverage Payment		Minimum # of Commodities*	Maximum Annual Income**
Level	Rate		
65	75	1	\$13,333,333
65	90	1	\$11,111,111
75	75	1	\$11,555,555
75	90	1	\$ 9,629,629
80	75	3	\$10,833,333
80	90	3	\$ 9,027,777

*Must meet minimum income requirements.

**The Maximum Annual Income represents the maximum approved farm revenue at each coverage level and payment rate to be eligible for AGR due to the \$6.5 million maximum liability allowed.

Loss Payments

Loss payments are triggered when the adjusted income for the insured year is less than the loss inception point. The loss inception point is calculated by multiplying the approved AGR by the selected coverage level. Once a revenue loss is triggered, you are paid based on the payment rate you selected, either 75 cents or 90 cents for each dollar lost.

Loss Payment Example

Assumptions:

- 80-percent coverage level and 90-percent payment rate chosen;
- Approved AGR of \$94,900 and actual revenue from the farm for the year was \$21,000;
- Liability: $\$94,900 \times 0.80 \times 0.90 = \$68,328$; then
- Loss Inception Point: $\$94,900 \times 0.80 = \$75,920$.

Loss Scenario:

$\$75,920 - \$21,000$ revenue to count = $\$54,920$ revenue loss; then
 $\$54,920 \times 0.90$ payment rate = $\$49,428$ indemnity payment.

Note: If your allowable expenses for the current crop

year fall below 70 percent of the approved expenses, the approved AGR payments will be reduced.

This summary is for general illustration purposes only. Please contact a private crop insurance agent to learn more about AGR.

Contact Us

United States Department of Agriculture
Risk Management Agency
1400 Independence Ave., SW, Stop 0801
Washington, D.C. 20250-0801

Telephone: (202) 690-2803

Fax: (202) 690-2818

Web site: <http://www.rma.usda.gov>

Email: RMA.mail@rma.usda.gov

For More Information

AGR insurance policies are available from private insurance agents. A list of crop insurance agents is available at all USDA Service Centers throughout the United States, or see RMA's online agent locator at: <http://www3.rma.usda.gov/tools/agents/companies/>.

Policy Information: <http://www.rma.usda.gov/policies/agr.html>

Premium Calculator: <http://www3.rma.usda.gov/apps/premcalc>

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Adjusted Gross Revenue-Lite

Adjusted Gross Revenue-Lite (AGR-Lite) is a whole-farm, revenue-protection plan of insurance. The plan provides protection against low revenue due to unavoidable natural disasters and market fluctuations that affect income during the insurance year. Most farm-raised crops, animals, and animal products are eligible for protection.

AGR-Lite can stand alone or be used in conjunction with other Federal crop insurance plans, except Adjusted Gross Revenue (AGR). When producers purchase both AGR-Lite and other Federal crop insurance the AGR-Lite premium will be reduced.

The AGR-Lite concept:

- Uses a producer's 5-year historical farm average revenue as reported on the IRS tax return (Schedule F or equivalent forms) and an annual farm report as a base to provide a level of guaranteed revenue for the insurance period;
- Provides insurance coverage for multiple agricultural commodities in one insurance product; and
- Establishes revenue as a common denominator for the insurance of all agricultural commodities.

AGR-Lite Timeline

Sales Closing Date: March 15.

Cancellation and Termination Date: January 31.

Contract Change Date: August 31.

Year of Insurance: For the application year, you will not be covered for any losses that occur earlier than 10 days after we receive your properly completed application. For carry-over policies, any unavoidable natural disaster that occurred during the previous or current insurance year is covered.

Insurance Year: Defined as a calendar year in which the sales closing date occurs and includes both calendar year and fiscal year filings (corresponding to the producer's IRS tax period).

Claims: Claims are settled after taxes are filed for the insurance year.

Availability

AGR-Lite is available in: Alabama, Alaska (selected counties), Arizona, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Kansas, Maine, Maryland, Massachusetts, Minnesota, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York (selected counties), North Carolina, Oregon, Pennsylvania (except Philadelphia County), Rhode Island, South

Carolina, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

Producer Eligibility

To be eligible for AGR-Lite coverage, a producer must:

- Be a U.S. citizen or resident;
- File a calendar year or fiscal year farm tax return;
- Produce agricultural commodities primarily in counties where AGR-Lite is available (includes income from contiguous counties);
- Have liability not exceeding \$1 million (less than \$2,051,282 in approved gross income);
- Have had the same tax entity for 7 years (filed 5 consecutive years of Schedule F tax forms, plus previous year and insurance year) unless a change in the tax entity is reviewed and approved by the insurance provider;
- Have no more than 50 percent of total revenue from commodities purchased for resale; and
- Have no more than 83.35 percent of total revenue from potatoes.

Premium Subsidy

The Government will pay a portion of the premium for the AGR-Lite policy that equals 48 percent, 55 percent, and 59 percent of the total premiums for the coverage levels of 80 percent, 75 percent, and 65 percent, respectively.

Insured Causes of Loss

Insurance is provided against revenue loss due to any unavoidable natural occurrences during the current or previous insurance year or due to market fluctuations that cause a loss of revenue during the current insurance year. No payment will be made for losses due to negligence, mismanagement, or wrongdoing by the producer, the producer's family, members of the household, tenants, employees, or contractors; crop abandonment; bypassing of acreage; or other uninsurable causes listed in the insurance policy.

AGR-Lite Application Information

Producers must provide the following information when completing an AGR-Lite application:

- History calculation worksheet, including 5 years of allowable income and expense data from IRS tax returns (Schedule F or equivalent forms);
- An annual farm report for the insurance year listing each commodity to be produced, the expected quantity of the commodity to be produced, and the expected

- price for the commodity;
- A commodity profile report for the previous 2 years for producers selecting higher coverage levels;
- Beginning inventories, if applicable; and
- Indication of changes that will result in less income for the insurance year than the historical average.

Choosing a Revenue Guarantee

Coverage levels and payment rates vary with the number of commodities produced and are selected by the producer (see table below) from the Special Provisions of Insurance. AGR-Lite liability is calculated by multiplying the approved adjusted gross revenue by the selected coverage level and payment rate. The coverage level will determine when indemnity payments begin. The payment rate will determine how much the producer will be paid for each dollar lost under the coverage level. A producer selects one amount of coverage that will cover all commodities.

Available Protection Amounts

Coverage Payment		Minimum # of Commodities*	Maximum Annual Income**
Level	Rate		
65	75	1	\$2,051,282
65	90	1	\$1,709,401
75	75	1	\$1,777,777
75	90	1	\$1,481,481
80	75	3	\$1,666,666
80	90	3	\$1,388,888

*Must meet minimum income requirements. Commodity grouping is available for the 80-percent coverage level.

**The Maximum Annual Income represents the maximum approved farm revenue at each coverage level and payment rate to be eligible for AGR-Lite due to the \$1,000,000 maximum liability allowed.

Loss Payments

Loss payments are triggered when the adjusted income for the insured year is less than the loss inception point. The loss inception point is calculated by multiplying the approved adjusted gross revenue times the selected coverage level. Once a revenue loss is triggered, the producer is paid based on the payment rate selected, either 75 cents or 90 cents for each dollar lost.

Loss Payment Example

Assumptions:

- 80-percent coverage level and 75-percent payment rate chosen;
- Approved adjusted gross revenue of \$100,000 and actual revenue from the farm for the year was

\$70,000;

- Liability: $\$100,000 \times 0.80 \times 0.75 = \$60,000$; then
- Loss Inception Point: $\$100,000 \times 0.80 = \$80,000$;

Loss Scenario:

$\$80,000 - \$70,000$ revenue to count = \$10,000 loss of revenue; then

$\$10,000 \times 0.75$ payment rate = \$7,500 indemnity payment.

Note: If the producer's allowable expenses for the current crop year fall below 70 percent of the approved expenses, the approved AGR-Lite payments will be reduced.

This summary is for general illustration purposes only. Please contact a private crop insurance agent to learn more about AGR-Lite.

Contact Information

For a list of crop insurance agents, visit RMA's online agent locator at: <http://www3.rma.usda.gov/apps/agents>.

To view additional information, visit the following RMA online resources:

<http://www.rma.usda.gov/policies/2008policy.html> for policy and forms, <http://www.rma.usda.gov/data/m13> for Draft Manual 13 Requirements, and <http://www3.rma.usda.gov/apps/premcalc> for premium calculation.

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October 2006
Slightly Revised July 2008

Apples

Connecticut

Crop Insured

- Insurable apples are any variety of apples adapted to the area and located on insurable acreage that has produced at least 150 bushels per acre in one of the past four years
- Policy offers basic coverage against damage from natural perils resulting in fresh or processing fruit that fails to grade U.S. No. 1 Processing or better
- An orchard inspection may be required.

Counties Available

Insurance is available in all Connecticut counties.

Causes of Loss

Adverse weather conditions¹
Failure of irrigation water supply²
Fire³
Insects⁴
Plant disease⁴
Wildlife

¹Natural weather perils such as hail, wind, frost, drought, etc. ²If caused by an insured peril during the insurance period. ³Unless weeds or undergrowth are not controlled, or unmulched pruning debris is not removed. ⁴But not damage due to insufficient or improper application of control measures.

Note: Policy does not cover loss of income due to market fluctuations.

Insurance Period

Coverage begins on November 21, 2009, and ends at the earliest of: (1) total destruction of the crop, (2) harvest of the crop, (3) final adjustment of a claim, (4) abandonment of the orchard, (5) November 5, 2010.

Reporting Requirements

Acreage Report—An acreage report is due to your agent (see Important Dates) with all acreage designated by type (fresh, processing, varietal group).

Direct Marketing—You must give at least 15 days notice before any production is sold by direct marketing so that an appraisal can be made.

Notice of Claim

- If crop damage occurs, you must give notice within 72 hours of initial discovery of damage
- If you previously gave notice of crop damage, you must also provide notice at least 15 days prior to the beginning of harvest if you intend to claim an indemnity
- If crop will not be harvested, you must give notice at least 3 days prior to the date harvest should have started.

Production Report—Required by date shown below under Important Dates to include last year's production, number and ages of bearing trees on insurable and uninsurable acreage, any changes that may adversely impact yield potential (for example, tree removal or change in cultural practices) and other information as required.

Important Dates

Sales Closing	November 20, 2009
Production Report Due	January 31, 2010
Acreage Report Due	January 31, 2010
Premium Billing	September 15, 2010

Definitions

Average APH Yield—Your average yield per acre based on your actual production history (APH), county yields, or other adjusted yields if appropriate.

Noncontiguous—Acreage of the insured crop that is separated from other acreage of the same insured crop by land that is neither owned nor rented by you, may be considered as noncontiguous acreage. However, if the acreage is separated by only a road, right-of-way, waterway, or canal (public or private), the acreage will be considered contiguous.

Price Election—An established price used to calculate your premium and indemnity.

Coverage Levels and Premium Subsidies

Coverage levels range from 50 to 75 percent of your average yield and are subsidized as shown below. For example, an average APH yield of 500 bushels per acre would result in a guarantee of 250 bushels per acre at the 50-percent coverage level.

Coverage Level % →	50	55	60	65	70	75
Premium Subsidy %	67	64	64	59	59	55
Your Premium Share %	33	36	36	41	41	45

Catastrophic (CAT) coverage is fixed at 50 percent of average yield and 55 percent of the price election. CAT is 100 percent subsidized with no premium cost to you except for an administrative fee of \$300, regardless of the acreage.

Price Elections

Fresh	\$11.85
Processing.....	2.10
Varietal Group A*	14.50
Varietal Group B.....	9.50

*See table below for specific varieties.

Price elections are posted on the RMA Web site at:
<http://www3.rma.usda.gov/apps/pricesinquiry/>

Insurance Units

Your insurable acreage is grouped into one or more units depending upon the unit structure you select.

Basic Unit—A basic insurance unit is all of your insurable apple acreage, within the county, for which you have 100 percent share or which is owned by one person and operated by another person on shares.

Optional Units—If your policy is not a CAT policy and you meet other specific requirements, such as separate records for each proposed unit, you may apply for separate optional units established by:

- Non-contiguous land (see definitions)
- Farm serial number
- Practice (irrigated or non-irrigated)
- Varietal group as specified in the table below:

Group	Varieties		
A	Braeburn	Gala	Pink Lady
	Cameo	Honeycrisp	Royal Gala
	Crispin	Jonagold	Sommerfeld
	Fuji	Macoun	
B	All other varieties not specified above		

Options

Optional Coverage for Quality Adjustment

Additional protection is available for loss of quality (as a result of natural perils) to apples grown for fresh fruit that do not grade U.S. Fancy or better:

- This option may be applied only to apple acreage designated and certified for fresh fruit production on your acreage report
- Any block of apple acreage grown and maintained for processing is not eligible for optional coverage under this option
- This option is not available under a CAT policy.

Loss Example

This example assumes 500 bushels per acre average yield, 60-percent coverage level, and no optional coverage.

500	Bushels per acre APH yield
x .60	Coverage level percentage
300	Bushels per acre guarantee
– 100	Bushels per acre production
200	Bushels per acre loss
x 11.85	Price election (fresh)
2370	Indemnity per acre
– 98	Estimated producer cost
\$2,272	Net indemnity per acre

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Corn

CT, DE, ME, MD, MA, NH, NJ, NY, NC, PA, RI, VT, VA, WV

Crop Insured

Insurable corn includes field corn planted for harvest as grain or silage (if provided for on the county actuarial tables). Corn may be of yellow dent, white, mixed yellow and white, waxy, or high-lysine varieties. Excluded from coverage are any varieties of high-amylase, high-oil, high-protein, flint, flour, Indian, or blue corn. Corn varieties genetically adapted to provide forage for wildlife and open-pollinated varieties are not insurable. Silage-only corn varieties cannot be insured for grain. Corn is insurable in virtually every county.

Causes of Loss

Adverse weather conditions¹
Fire
Insects²
Plant disease²
Wildlife

¹Natural perils such as hail, frost, freeze, drought, and excess precipitation.

²But not damage due to insufficient or improper application of pest or disease control measures.

Insurance Period

Coverage begins when the crop is planted and ends at the earliest of: (1) total destruction of the crop, (2) harvest of the crop, (3) abandonment of the crop, (4) final adjustment of a claim, (5) December 10 (grain—all States), (6) September 30 (silage—NC and VA), or (7) October 20 (silage—DE, MD, WV and States north thereof).

Important Dates

Sales Closing—NC February 28, 2010
Sales Closing—Other¹ March 15, 2010

¹Other States (CT, DE, ME, MD, MA, NH, NJ, NY, PA, RI, VT, VA, WV).

Note: Final planting and acreage reporting dates vary by state and county. Consult a crop insurance agent for specific dates and other details.

Definitions

Production Guarantee— Number of bushels or tons guaranteed, determined by multiplying your average yield (based on your records) times the coverage level percentage you elect.

Price Election— The price used to calculate your premium or indemnity. Price elections are posted on the RMA Web site at:

<http://www3.rma.usda.gov/apps/pricesinquiry/>

Price Elections

Grain \$3.55 per bushel
Silage \$32.75 per ton

Coverage Levels and Premium Subsidies

Coverage level options range from 50 to 75 percent of your average yield (up to 85 percent in certain counties in DE, MD, NJ, NC, PA, and VA). An average corn yield of 100 bushels per acre, for example, results in a guarantee of 75 bushels per acre at the 75-percent level.

Premiums are also subsidized as shown in the table below. At the 75-percent coverage level, your premium share would be 45 percent of the base premium:

Item	Percent					
Coverage Level	50	55	60	65	70	75
Premium Subsidy	67	64	64	59	59	55
Your Premium Share	33	36	36	41	41	45

Catastrophic (CAT) coverage is fixed at 50 percent of average yield and 55 percent of the price election. CAT is 100 percent subsidized with no premium cost to you except for an administrative fee of \$300, regardless of the acreage.

Replant Provision

A replanting payment is allowed if your corn crop is damaged by a covered cause of loss to the extent that the remaining stand will not produce at least 90 percent of your bushel guarantee and it is practical to replant. The maximum replanting payment per acre will be price election multiplied by the lesser of:

- 20 percent of your production guarantee per acre, or
- 8 bushels (grain) or 1 ton (silage).

Note: Replanting payments are not available with CAT coverage.

Late and Prevented Planting

These provisions provide reduced protection on acreage that is planted late or that cannot be planted by the final planting date or within the late planting period. Consult a crop insurance agent for more details.

Insurance Units

Your insurable acreage will be grouped into one or more units in order to establish the approved yield, calculate a guarantee, and determine any indemnity.

Basic Unit: A basic unit includes all of your corn acreage in the county by share arrangement. Premiums are reduced by 10 percent for a basic unit.

Optional Units: If a basic unit consists of two or more farm serial numbers (FSN) and certain record-keeping criteria are met, you may apply for optional units by FSN. The 10-percent discount will not apply.

Loss Example

This example is based on an APH yield of 100 bushels per acre, 65-percent coverage level, non-irrigated, and one basic unit.

100	Bushels per acre average yield (APH)
x .65	Coverage level percentage
65	Bushels per acre guarantee
- 15	Bushels per acre actually produced
50	Bushels per acre loss
x 3.55	Price election
\$178	Indemnity per acre
- \$16	Estimated premium per acre (varies)
\$162	Net indemnity per acre

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Corn—Crop Revenue Coverage

CT, DE, ME, MD, MA, NH, NJ, NY, PA, RI, VT, VA, WV

Crop Insured

Corn grown for grain may be insured under the **Crop Revenue Coverage (CRC)** plan of insurance if planted on insurable acreage located in a county with applicable actuarial documents.

CRC provides protection against a decline in market prices as well as a shortfall in production. The guarantee is in dollars and a loss situation occurs when the dollar value of your production falls below your dollar guarantee. CRC offers protection whether prices rise or fall:

- In most years when the price usually declines as harvest approaches, you are guaranteed a pre-determined amount of income per acre
- In a year of rising prices, a production shortfall would be compensated at the higher market-based harvest price. This is critical if any lost production must be replaced at higher market prices for on farm feeding or to fulfill delivery on a forward contract.

Counties Available

Corn CRC is available in virtually all counties.

Causes of Loss

Adverse weather conditions¹
Failure of irrigation water supply²
Fire
Harvest price is less than base price
Insects³
Plant disease³
Wildlife

¹Natural perils such as hail, drought, and excess precipitation. ²If caused by an insured peril during the insurance period. ³But not damage due to insufficient or improper applications of control measures.

Insurance Period

Coverage begins when the crop is planted and ends at the earliest of: (1) total destruction of the crop, (2)

harvest of the crop, (3) abandonment of the crop, (4) final adjustment of a claim, (5) December 10.

Reporting Requirements

You must notify your agent or insurance company representative within 72 hours of discovery of any damage to your crop.

- If crop damage is initially discovered during harvest, you must notify your agent immediately and leave representative samples of the unharvested crop at least 10 feet wide and extending the entire length of the field.
- If you expect a revenue loss on the unit, you must give notice no later than 45 days after the harvest price is released.
- You must also give notice before harvesting for silage any acreage that was insured as grain.

Important Dates

Sales Closing March 15, 2010

Note: Final planting and acreage reporting date vary by state and county. Consult a crop insurance professional for specific dates in your county.

Definitions

Average APH Yield—Your average yield per acre based on your actual production history (APH), county yields, or other adjusted yields if appropriate.

Base Price— The price that determines the minimum guarantee and premium is based on the December Chicago Board of Trade (CBOT) futures contracts average daily price during the month of February 2010.

Coverage Level—You select a level of protection from 50 to 75 percent (up to 85 percent in some states and counties) of your average APH yield.

Minimum Guarantee — Average APH yield X base price X coverage level:

Example: 100 bushels per acre X \$4.04 X .65 =
\$263 per acre minimum guarantee

Harvest Price — The price used to determine calculated revenue and harvest guarantee is based on the December CBOT futures average daily price during October 2009.

Harvest Guarantee — Average APH yield X harvest price X coverage level:

Example: 100 bushels per acre X \$3.72 X .65 =
\$242 per acre harvest guarantee

Calculated Revenue — Value of your production determined by bushels produced X harvest price:

Example: 50 bushels per acre produced X \$3.72 =
\$186 per acre calculated revenue

Note: The actual price you receive for selling your crop is **not** a factor in CRC calculations.

Final Guarantee — Higher of the minimum or harvest guarantee.

Note: Your premium will **not** increase if final guarantee is higher than the minimum guarantee.

Indemnity — Final guarantee – calculated revenue:

Example: \$263 – \$186 = \$77 per acre indemnity

Price Elections

YEAR	BASE PRICE*	HARVEST PRICE**
2010	NA	NA
2009	4.04	3.72
2008	5.40	4.13
2007	4.06	3.58

* Published on or after March 1 of the crop year.

** Published on or after November 1 of the crop year.

NA-Not available at this time.

Price elections will be posted on the RMA Web site at:

<http://www3.rma.usda.gov/apps/pricesinquiry/>

Insurance Units

Insurable acreage is grouped into one or more units based on your selection of one of the following:

Basic Unit: A basic insurance unit includes all your corn acreage in the county by share arrangement. Premiums are reduced 10 percent for basic units.

Optional Units: If qualified, you may further divide a basic unit into optional units by farm serial number or irrigated/non-irrigated land. The 10-percent basic unit premium discount will not apply.

Enterprise Unit: An enterprise unit combines all your corn in the county into one county-wide unit, regardless of ownership, share, or rental arrangement. A premium discount will apply, based upon the number of insured acres. You must qualify for two or more basic/optional units to be eligible.

Loss Example

This example assumes an average yield of 100 bushels per acre, base price of \$4.04, harvest price of \$3.72, basic units, 65-percent coverage level.

100	Bushels per acre average APH yield
x .65	Coverage level
65	Bushels per acre guarantee basis
x 4.04	Base price per bushel
\$263	Minimum guarantee per acre

When the harvest price is announced in November, a harvest guarantee is calculated. The final guarantee is the higher of the minimum or harvest guarantee.

Harvest guarantee per acre = \$242
(65 bushels per acre X \$3.72 harvest price)

\$263	Final guarantee per acre (higher of minimum or harvest guarantee)
– 186	Calculated revenue (50 bushels per acre produced X \$3.72 harvest price)
77	Indemnity per acre
– 16	Estimated premium per acre
\$61	Net indemnity per acre

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Organic Farming Practices

Insurance Fact Sheet

USDA Guidelines Provide Crop Insurance for Organic Farming Practices

The Agricultural Risk Protection Act of 2000 (ARPA) provides for organic farming practices to be recognized as good farming practices. Organic growers can now insure their organically grown (insurable) crops. Prior to this ruling, crop insurance policies may not have covered production losses when organic insect, disease, and/or weed-control measures were used and were not effective.

Coverage Availability

Risk Management Agency (RMA) currently provides coverage for— 1) certified organic acreage; 2) transitional acreage being converted to certified organic acreage in accordance with an organic plan; and 3) buffer zone acreage. Insurance can only be provided for any crop grown using organic farming practices when a premium rate for the organic practice is contained within the actuarial documents or there is an approved written agreement.

Insurable damage caused by insects, disease, or weeds is covered if recognized organic farming practices fail to provide an effective control.

If any acreage qualified as certified organic acreage or transitional acreage on the date you report such acreage (even if such certification is subsequently revoked by the certifying agent or the certifying agent no longer considers the acreage as transitional acreage for the remainder of the crop year), that acreage will remain insured under the reported practice for which it qualified at the time the acreage was reported. Any loss due to failure to comply with the organic standards is considered an uninsured cause of loss.

Contamination by application or drift of **prohibited substances** onto land where crops are grown using organic farming practices is not an insured peril on any certified, transitional, or buffer zone acreage.

Prevented Planting acreage is considered organic practice acreage if it is identified as certified organic, transitional, or buffer zone acreage in the organic plan.

Reporting Acreage

On the date you report acreage, you must have— 1) for certified organic acreage, a written certification in effect from a certifying agent; or 2) for transitional acreage, a certificate or written documentation from a certifying agent indicating that an organic plan is in effect for the acreage; and 3) records from the certifying agent showing the location of each field and acreage maintained and **not** maintained under organic farming practices.

Price Elections, Insurance Dollar Amounts, and Premiums

The price elections or insurance dollar amounts applicable to both certified organic acreage and transitional acreage (includes any respective buffer zones) will be the price elections or insurance dollar amounts published by RMA for the crop grown using conventional means, for the current crop year. The insured is required to maintain separate Actual Production History (APH) databases for conventional, transitional, and certified organic acreage.

Premiums are adjusted to recognize any additional risk associated with covering organic farming practices and are shown in the actuarial documents or contained in the written agreement.

Definitions

Organic Plan— A written plan, in accordance with the National Organic Program (NOP) published in 7 CFR part 205, that describes the organic farming practices that you and a certifying agent agree upon annually or at such other times as prescribed by the certifying agent. For information on the NOP, visit: <http://www.ams.usda.gov/nop/indexIE.htm>

Buffer Zone— A parcel of land, as designated in your organic plan, that separates agricultural commodities grown under organic practices from agricultural commodities grown under non-organic practices, and used to minimize the possibility of unintended contact by prohibited substances or organisms.

Organic Farming Practice—A system of plant production practices approved by a certifying agent in accordance with 7 CFR part 205.

Good Farming Practices—The production methods used to produce the insured crop, allow it to make normal progress toward maturity, and produce at least the yield used to determine the production guarantee or insurance amount, including adjustments for late-planted acreage, which are—1) for conventional or sustainable farming practices, those generally recognized by agricultural experts for the area; or 2) for organic farming practices, those generally recognized by the organic agricultural industry for the area or contained in the organic plan.

Organic Agricultural Industry—Persons who are employed by the following organizations—Appropriate Technology Transfer for Rural Areas <http://attra.ncat.org>, Sustainable Agriculture Research and Education <http://www.sare.org>, the Cooperative State Research, Education and Extension Service <http://www.csrees.usda.gov>, the university agricultural departments, or other persons approved by the Federal Crop Insurance Corporation, whose research or occupation is related to the specific organic crop or practice for which such expertise is sought.

Where To Purchase and Insurable Crops

Producers should consult their crop insurance agent to obtain specific information and applicable deadlines. To find a list of **crop insurance agents** please visit <http://www.rma.usda.gov/tools/agent.html>. For a **list of insurable crops**, please visit: <http://www.rma.usda.gov/policies/>

Adjusted Gross Revenue and Adjusted Gross Revenue-Lite

For more information on Adjusted Gross Revenue and Adjusted Gross Revenue-Lite plans of insurance—which also cover organic production—please visit <http://www.rma.usda.gov/pubs/rme/fctsht.html>.

Contact Us

Regional Office Contact:

<http://www.rma.usda.gov/aboutrma/fields/rsos.html>

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Peaches

Connecticut

Crop Insured

Peaches (including nectarines) may be insurable if they are grown within the county:

- For the production of fresh or processing peaches
- From tree varieties having a chilling hour requirement appropriate for the area
- From a rootstock adapted to the area
- In an orchard that is considered acceptable if inspected
- On trees that have reached at least the **fourth** growing season after being set out.

Note: If trees have not reached the fourth year, the acreage **may** still be insurable by written agreement if the trees have produced at least 100 bushels per acre.

Counties Available

Peaches are insurable in Litchfield and Middlesex counties. Peaches in other counties may be insurable by written agreement if specific criteria are met. Contact an agent for more details.

Causes of Loss

Adverse weather conditions¹
Failure of irrigation water supply²
Fire³
Insects⁴
Plant disease⁴
Insufficient number of chilling hours⁵
Wildlife⁶

¹Natural perils such as hail, frost, freeze, wind, drought, and excess moisture. ²If caused by an insured peril during the insurance period. ³Unless weeds and undergrowth are not controlled or unmulched pruning debris is not removed. ⁴But not damage due to insufficient or improper application of control measures. ⁵To effectively break dormancy. ⁶Unless wildlife control measures have not been taken.

Note: This policy does not cover damage or loss of production resulting from **split pits** (regardless of cause) or **inability to market** the peaches for any reason other than actual damage from an insurable cause (for example, events such as quarantine, boycott, or refusal to accept production are not covered).

Insurance Period

Coverage begins on November 21, 2009, and ends the earliest of: (1) total destruction of the crop, (2) harvest of the crop, (3) final adjustment of a claim, (4) abandonment of the crop, or (5) September 30, 2010.

Reporting Requirements

You must give at least 15 days notice before any production is sold by direct marketing (unless records verify weighing/grading through a packing shed) so that an appraisal can be made.

Acreage Report—An acreage report is due to your agent by the date shown under Important Dates to include all acreage (insurable and uninsurable) in which you have a share.

Notice of Claim

- If crop damage occurs, you must give notice within 72 hours of initial discovery of damage
- If you intend to claim an indemnity, you must give notice at least 15 days prior to the beginning of harvest so that the acreage may be inspected
- If the crop will not be harvested, you must give notice within 3 days of the date harvest should have started.

Production Report—Required by the date shown under Important Dates and must include the following information:

- A report of the previous year's production
- Tree information such as numbers, ages, varieties
- Any changes that may adversely impact yield potential (for example, tree removal or change in cultural practices)
- Other information as required by the policy.

Important Dates

Sales Closing	November 20, 2009
Production Report Date	January 31, 2010
Acreage Report Due Date	January 31, 2010
Premium Billing	September 15, 2010

Definitions

Bushel—Fifty pounds of peaches (ungraded).

Production Guarantee—Number of bushels guaranteed per acre determined by multiplying your average yield (based on your records) times the coverage level percentage you elect.

Price Election—An established price used to calculate your premium or indemnity (see below).

Coverage Levels and Premium Subsidies

Coverage levels range from 50 to 75 percent of your average yield and are subsidized as shown below. For example, an average APH yield of 250 bushels per acre would result in a guarantee of 125 bushels per acre at the 50-percent coverage level.

Coverage Level % →	50	55	60	65	70	75
Premium Subsidy %	67	64	64	59	59	55
Your Premium Share %	33	36	36	41	41	45

Catastrophic (CAT) coverage is fixed at 50 percent of average yield and 55 percent of the price election. CAT is 100 percent subsidized with no premium cost to you except for an administrative fee of \$300, regardless of the acreage.

Price Elections

Fresh	\$34.50
Processing	\$3.85

Price elections will be posted on the RMA Web site at: <http://www3.rma.usda.gov/apps/pricesinquiry/>

Loss Example

This example is based on 50-percent coverage level, fresh price election, and average yield of 250 bushels per acre.

250	Bushels per acre APH yield
x .50	Coverage level percentage
125	Bushels per acre guarantee
= 25	Bushels per acre production
100	Bushels per acre loss
x 34.50	Price election (fresh)
3450	Indemnity per acre
= 120	Estimated producer cost
\$3,330	Net indemnity per acre

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Potatoes

Connecticut

Crop Insured

Potatoes planted with certified seed for harvest as either certified seed stock or for human consumption may be insured. The policy does not cover any acreage where potatoes are:

- Inter-planted with another crop
- Planted into an established grass or legume; or
- Planted without following crop rotation requirements specified in the Special Provisions.

Counties Available

Potatoes are insurable in Hartford county. Potatoes may be insurable in other counties if specific criteria are met. Contact a crop insurance agent for details.

Causes of Loss

Adverse weather conditions¹
Failure of irrigation water supply
Fire
Insects²
Plant disease²
Wildlife

¹Such as hail, frost, freeze, drought, and excess moisture. ²Only if sufficient and proper control measures are used.

Note: The policy does not insure against loss of production from damage occurring **after** potatoes are placed in storage. Even if a storage coverage endorsement is in effect, the cause of the damage nonetheless must have occurred **before** the end of the insurance period.

Insurance Period

Coverage begins when the potatoes are planted and ends the earliest of: (1) total destruction of the crop, (2) harvest of the crop, (3) final adjustment of a claim, (5) abandonment of the crop, or (6) October 31.

Reporting Requirements

Acreage Report — You must timely report to your agent all the acres of potatoes in the county in which you have a share.

Important Dates

Sales Closing	March 15, 2010
Final Planting Date	June 10, 2010
Acreage Report Date	June 30, 2010
End of Insurance.....	October 31, 2010

Definitions

Approved Actual Production History (APH)

Yield—A yield based on your actual yields, county average yields, or a combination of both and used to determine your production guarantee

Production Guarantee—Hundredweight (cwt.)

guaranteed per acre determined by multiplying your approved APH yield times the coverage level percentage you elect

Duties in the Event of Damage or Loss

(1) Protect the crop from further damage by providing sufficient care; (2) notify your agent within 72 hours of your initial discovery of damage (but not later than 15 days after the end of the insurance period); and (3) leave representative samples intact for each field of the damaged unit.

Coverage Levels and Premium Subsidies

Coverage levels range from 50 to 75 percent of your average yield. An average potato yield of 260 cwt. per acre, for example, would result in a 195 cwt. per acre guarantee at the 75-percent coverage level. Crop insurance premiums are subsidized as shown in the following table. For instance, if you selected the 75-percent coverage level, your premium share would be 45 percent of the base premium:

Coverage Level % →	50	55	60	65	70	75
Premium Subsidy %	67	64	64	59	59	55
Your Premium Share %	33	36	36	41	41	45

Catastrophic (CAT) coverage is fixed at 50 percent of your average yield and 55 percent of the price election. The cost for CAT coverage is an administrative fee of \$300, regardless of the acreage.

Price Election

\$9.80 per cwt

Price elections are posted on the RMA Web site at:
<http://www3.rma.usda.gov/apps/pricesinquiry/>

Insurance Units

Your insurable acreage will be grouped into one or more units in order to establish the approved yield, calculate a guarantee, and determine any indemnity.

Basic Unit—A basic unit includes all of your potato acreage in the county by share arrangement. Premiums are reduced by 10 percent for a basic unit.

Optional Units—If a basic unit consists of two or more farm serial numbers (FSN) and certain record-keeping criteria are met, you may apply for optional units by FSN. The 10-percent discount will not apply

Options and Endorsements

Protection against a loss in quality or from damage that does not become evident until the potatoes are in storage is available for an additional premium. Consult a crop insurance agent for further details.

Note: Under the storage coverage endorsement, coverage is restricted to certain defects that must be a direct result of an insurable cause of loss occurring during the insurance period.

Loss Example

This example assumes an average yield of 260 cwt. per acre, 65-percent coverage level, no options or endorsements, and one basic unit.

260	Cwt. per acre average yield (APH)
x .65	Coverage level percentage
169	Cwt. per acre guarantee
– 89	Cwt. per acre production
80	Cwt. per acre loss
X \$9.80	Price election
\$784	Indemnity per acre
– 41	Estimated premium per acre
\$743	Net indemnity per acre

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Fresh Market Sweet Corn Connecticut

Crop Insured

Acreage planted to sweet corn to be harvested and sold as **fresh market sweet corn** is insurable, including non-irrigated acreage. To be insurable, the producer must have grown sweet corn for commercial sale or participated in managing a sweet corn farming operation in at least one of the three previous years.

Exclusion: Sweet corn interplanted with another crop or in established grasses or legumes is not covered.

Counties Available

Insurance is available in all Connecticut counties.

Causes of Loss

Adverse weather conditions¹
Fire
Insects²
Plant disease²
Wildlife
Failure of irrigation water supply³

¹Natural perils such as hail, frost, freeze, drought, excess precipitation, etc.

²Does not include damage due to insufficient or improper application of pest or disease control measures. ³If caused by an insured cause of loss that occurs during the insurance period.

Note: Revenue losses caused by low market prices or low consumer demand are not covered.

Insurance Period

Coverage begins when the sweet corn is planted and ends the earliest of:

- Total destruction of the crop
- The date harvest should have started on any acreage that will not be harvested
- Abandonment of the crop
- Completion of harvest
- Final adjustment of a claim
- September 30 of the year the crop is planted.

Important Dates

Sales Closing March 15, 2010
Final Planting Date June 30, 2010
Acreage Report Date July 15, 2010
End of Insurance September 30, 2010

Definitions

Allowable Cost—An amount not to exceed \$4.15 per container for harvesting and marketing costs (such as picking, hauling, packing, shipping) is subtracted from the price received for each container of sweet corn to determine value of sold production.

Container—Fifty (50) ears of fresh sweet corn.

Guarantee—A guaranteed dollar amount of coverage that you select prior to planting.

Minimum Value—A minimum value of \$6.50 per container will be applied to any sold production that is valued at less than \$6.50 after subtracting the allowable cost. Unsold appraised production will also be valued at the minimum value.

Reference Maximum Dollar Amount—The value per acre established for the state. Your guarantee is derived from multiplying the reference maximum dollar amount by the level of coverage (see amounts of coverage and subsidy table on reverse side).

Reporting Requirements

Acreage Report—You must give a report of all your sweet corn acreage in the county by the acreage reporting date (July 15).

Coverage Levels and Premium Subsidies

Instead of guaranteeing production, the policy guarantees a dollar amount of coverage, depending on the level of coverage selected. Crop insurance premiums are subsidized as shown below. For example if you select the 75-percent coverage level, the premium subsidy is 55 percent and your premium share is only 45 percent of the base premium.

AMOUNTS OF COVERAGE AND SUBSIDY

Reference Maximum Dollar Amount = \$1915			
Coverage Level	Coverage Amount	Subsidy %	Your Premium Share
CAT*	\$527	100%	0%
50%	\$958	67%	33%
55%	\$1053	64%	36%
60%	\$1149	64%	36%
65%	\$1244	59%	41%
70%	\$1340	59%	41%
75%	\$1436	55%	45%

* Catastrophic (CAT) coverage is equal to 55 percent of the dollar amount of coverage at the 50-percent coverage level. CAT is 100-percent subsidized with no premium cost to you except for an administrative fee of \$300, regardless of the acreage.

The dollar amount of insurance will be posted on the RMA Web site at:

<http://www3.rma.usda.gov/apps/pricesinquiry/>

Stage Guarantees

In the event of a covered cause of loss, the indemnity will be reduced if damage occurs during the first stage of growth as shown below. This reduction in guarantee reflects the absence of harvesting costs and certain other crop maintenance expenses that will not be incurred if the crop is not carried to harvest.

Stage	Interval	Percent of Guarantee
1	From planting through the beginning of tasseling (i.e., when the tassel becomes visible above the whorl)	65%
Final	From tasseling until the acreage is harvested	100%

Loss Example

A loss occurs when the crop value falls below the guaranteed dollar amount as a result of damage from a covered cause of loss (see the list of causes of loss on the front side of this fact sheet).

The example below assumes a dollar guarantee of \$1244 per acre. Assume that only 50 containers of sweet corn per acre were produced and sold for \$12 each. Subtracting the allowable cost of \$4.15 per container leaves a net value of \$7.85 per container and a crop value of \$393 per acre (50 containers x \$7.85).

\$1244	Dollar amount of coverage per acre
– 393	Production value per acre
851	Loss per acre
– 85	Estimated premium per acre
\$766	Net indemnity per acre

Note: The net value per container cannot be less than the minimum value (see definitions) unless you have the minimum value option. In the example above, if the harvested production had been sold for only \$10 per container, the actual net value per container would be \$5.85 (\$10 – \$4.15 allowable cost), which is below the minimum value of \$6.50. Therefore, the net value per container would be held to \$6.50, the production value per acre would be \$325 (50 containers per acre x \$6.50 MV), and the loss per acre would be \$919 (1244 – 325).

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Tobacco

Connecticut

Crop Insured

The tobacco policy covers the following tobacco types in Connecticut:

- Type 51—Cigar Binder
- Type 61—Cigar Wrapper

Counties Available

Tobacco is insurable in Hartford and Tolland counties. Tobacco in other counties may be insurable by written agreement if specific criteria are met.

Causes of Loss

Adverse weather conditions¹
Failure of irrigation water supply²
Fire
Insects³
Plant disease³
Wildlife

¹Natural perils such as hail, excess precipitation, drought, wind, etc. ²If caused by an insurable peril during the insurance period. ³If proper applications of disease or pest control measures are applied.

Insurance Period

Coverage begins at transplanting and ends at the earlier of: 1) Total destruction of the tobacco on the unit, 2) Removal of the tobacco from the unit where grown, except for curing, grading, and packing, 3) Abandonment of the crop on the unit, 4) Final adjustment of the loss on the unit, or 5) April 30, 2011.

Reporting Requirements

Acreage Report—An acreage report is due to your agent no later than July 15 for all your tobacco acreage in the county, by type.

Production Report—A production report for the previous crop year is due to your agent before April 30. A yield will be assigned if this information is not timely provided.

Important Dates

Sales Closing..... March 15, 2010
Final Planting Date—Type 61..... June 10, 2010
Final Planting Date—Type 51..... June 30, 2010
Acreage Report Date..... July 15, 2010
End of Insurance..... April 30, 2011

Price Elections

TYPE	PRICE ELECTION
51 Cigar Binder	\$6.50
61 Cigar Wrapper	\$23.00

Price elections are posted on the RMA Web site at:
<http://www3.rma.usda.gov/apps/pricesinquiry/>

Coverage Levels and Premium Subsidies

Coverage level options range from 50 to 75 percent of your approved yield and subsidized as follows:

Coverage Level % →	50	55	60	65	70	75
Premium Subsidy %	67	64	64	59	59	55
Your Premium Share %	33	36	36	41	41	45

Catastrophic (CAT) coverage is fixed at 50 percent of your approved yield and 55 percent of the price election. CAT is 100-percent subsidized with no premium cost to you except for an administrative fee of \$300, regardless of the acreage.

Definitions

Approved Yield—The average yield per acre based upon your actual production history (APH) and used to determine your production guarantee.

Production Guarantee—Pounds guaranteed per acre determined by multiplying your approved yield times the coverage level percentage you select.

Duties in the Event of Damage or Loss

- If crop damage occurs, give notice within 72 hours of initial discovery of damage.
- Protect the crop from further damage if possible by providing sufficient care.
- If representative samples are required of any unharvested acreage, the strips must be at least 5 feet wide (at least two rows), extending the entire length of the field. Samples must not be harvested or destroyed until after a field inspection is made.

Insurance Units

Basic Unit: A basic unit is all insurable acreage of an insurable type of tobacco in the county in which you have a share on the date of planting for the crop year and that is identified by a single FSA farm serial number at the time insurance first attaches under these provisions for the crop year.

Late Planting

For any insured acreage initially planted after the final planting date (FPD), the production guarantee will be reduced as follows:

1. One percent per day if planted during the 1st through the tenth day immediately following the FPD;
2. Two percent per day if planted during the 11th through the fifteenth day after the FPD.

The premium amount for late planted acreage will be the same as for timely planted acreage.

Prevented Planting

Your prevented planting coverage will be 35 percent of your production guarantee for timely planted acreage. Additional prevented planting coverage levels are not available for tobacco.

Loss Example

This example is for cigar binder type and assumes 60-percent coverage level, price election of \$6.50, approved yield of 1,800 pounds per acre, and basic units.

1,800	Producer's approved yield
<u>x .60</u>	Coverage level
1,080	Pounds per acre guarantee
<u>- 580</u>	Pounds per acre harvested
500	Pounds per acre loss
<u>x 6.50</u>	Price election
\$3,250	Indemnity per acre
<u>- 180</u>	Estimated premium per acre
\$3,070	Net indemnity per acre

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Livestock Gross Margin Insurance

Dairy Cattle

June 2010

Livestock Gross Margin

LGM Dairy Cattle (LGM Dairy) provides protection to dairy producers when feed costs rise or milk prices drop. Gross margin is the market value of milk minus feed costs. LGM Dairy uses futures prices for corn, soybean meal, and milk to determine the expected gross margin and the actual gross margin.

A **premium subsidy** is not available for this insurance program. The Federal Crop Insurance Corporation pays all administrative subsidies.

The **indemnity** at the end of the 11-month insurance period is the difference (if positive) between the gross margin guarantee and the actual gross margin. The price the producer receives at the local market is not used in these calculations.

Availability

LGM is available to any producer who owns dairy cattle in Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginian, Washington, West Virginia, Wisconsin, and Wyoming.

Milk Coverage Availability

Only milk sold for commercial or private sale and primarily intended for final human consumption from dairy cattle fed in the States listed above is eligible for coverage. There is no minimum number of hundredweights a producer can insure. The maximum amount of milk that can be insured is 24 million pounds per crop year.

Deductibles

Producers can select deductible levels between \$0 and \$1.50 per hundredweight of milk in \$0.10 increments.

Sales Closing

To enroll, producers must sign up on the **last business Friday** of the month. The producer must also submit an application with a target marketings report for the milk and corn and soybean meal equivalents. Producers may also

choose to use the default values for corn and soybean meal equivalents.

Prices

Prices for LGM Dairy are based on simple averages of Chicago Mercantile Exchange Group futures contract daily settlement prices, and are **not** based on the prices the producer receives at the market.

Insurance Months

The insurance period contains the 11 months following the sales closing date. For example, the insurance period for the January 29 sales closing date contains the months of February through December. Coverage begins in the **second month** of the insurance period, so the coverage period for this example is March through December.

Sales Period

LGM Dairy is sold on the **last business Friday** of each month. The sales period begins as soon as RMA reviews the data submitted by the developer, Iowa Agricultural Insurance Innovations, after the Chicago Mercantile Exchange Group markets close on the last day of the price discovery period. The sales period ends at 8:00 p.m. the following day. If expected milk and feed prices are not available on the RMA Web site, LGM Dairy will not be offered for sale for the insurance period.

Annual Premium

The premium is due at the time the producer signs up for coverage. LGM premiums depend on each producer's marketing plan, coverage selected, deductible level, and futures and price volatility.

Cause of Loss

LGM Dairy covers the difference between the gross margin guarantee and the actual gross margin. LGM Dairy does **not** insure against dairy cattle death, unexpected decreases in milk production, or unexpected increases in feed use. Indemnity payments will equal the difference between the gross margin guarantee and the actual total gross margin for the insurance period.

Advantages

Convenience: Producers can sign up for LGM Dairy 12 times each year and insure all of their milk production that they expect to market over a rolling 11-month insurance period.

Customization: Can be tailored to any size farm.

Bundled Option Insurance: LGM Dairy is similar to buying both a call option to limit higher feed costs and a put option to set a floor on milk prices.

What LGM Dairy Does *Not* Cover

- ♦ Risk of dairy cattle death
- ♦ Unexpected production (milk) losses
- ♦ Unexpected increase in feed use
- ♦ Anticipated or multiple-year declines in milk prices
- ♦ Anticipated or multiple-year increases in feed costs

Definitions

Actual Marketings: The total amount of milk a producer sells each month of the insurance period for which there is a proof of sale. Actual marketings are used to verify ownership of milk and determine approved target marketings.

Deductible: The portion of the expected gross margin that the producer elects not to insure. Allowable deductible amounts range from \$0 to \$1.50 per hundredweight, in \$0.10 increments. The deductible equals the selected hundredweight deductible multiplied by the sum of target marketings across all months of the insurance period.

Gross Margin Guarantee: The gross margin guarantee for an insurance period is the expected total gross margin for an insurance period minus the deductible.

Loss of Gross Margin: Market value of milk minus feed costs.

Marketing Report: A report the producer submits on the insurance company's form showing actual, monthly marketings of milk insured under this policy. The marketing report must be accompanied by copies of sales receipts that provide records of the actual marketings shown on the marketing report.

Target Marketings: The producer's determination of the number hundredweight of milk insured each month during the insurance period. Only the hundredweight of milk in which the producer has a share can be reported.

Target Marketings Report: A report that the producer submits on the insurance company's form showing the target marketings for each month.

For More Information

LGM Coverage Prices, Rates, and Actual Ending Values:

http://www3.rma.usda.gov/apps/livestock_reports/

Premium Calculator:

<http://www.rma.usda.gov/tools/premcalc.html>

Purchase Locations

All multi-peril crop insurance policies are available from private insurance agents. A list of livestock insurance agents is available on the RMA Web site at:

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Connecticut Agricultural Business Management Guide

